MASTER
NEGATIVE
NO. 95-82469-7

COPYRIGHT STATEMENT

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted materials including foreign works under certain conditions. In addition, the United States extends protection to foreign works by means of various international conventions, bilateral agreements, and proclamations.

Under certain conditions specified in the law, libraries and archives are authorized to furnish a photocopy or other reproduction. One of these specified conditions is that the photocopy or reproduction is not to be "used for any purpose other than private study, scholarship, or research." If a user makes a request for, or later uses, a photocopy or reproduction for purposes in excess of "fair use," that user may be liable for copyright infringement.

The Columbia University Libraries reserve the right to refuse to accept a copying order if, in its judgement, fulfillment of the order would involve violation of the copyright law.

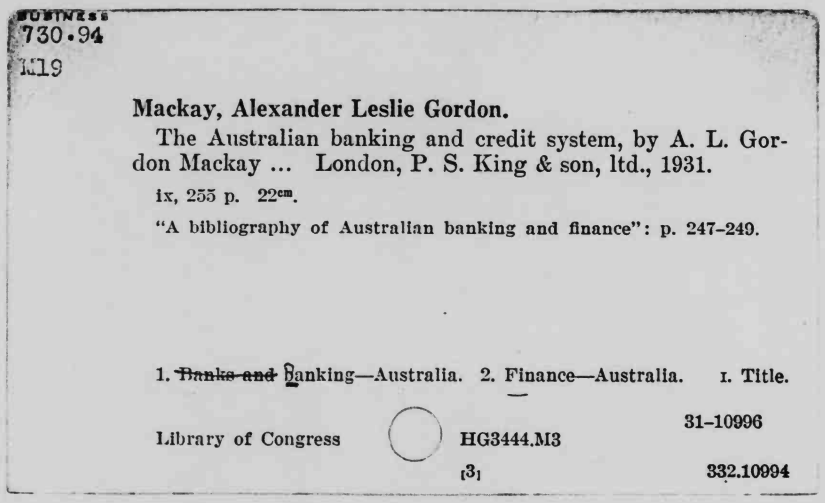
Author:
Mackay, Alexander Leslie Gordon
Title:
The Australian banking and credit system
Place:
London
Date:
1931

95-82469-7
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD


BUSINESS
730.94
M19

Mackay, Alexander Leslie Gordon.
The Australian banking and credit system, by A. L. Gordon Mackay ... London, P. S. King & son, ltd., 1931.
ix, 255 p. 22cm.
"A bibliography of Australian banking and finance": p. 247-249.

1. ~~Banks and~~ Banking—Australia. 2. Finance—Australia. I. Title.

Library of Congress HG3444.M3 31-10996
[3] 332.10994

RESTRICTIONS ON USE:

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 12X IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 4-17-95 INITIALS: PB

TRACKING # : MSH 06110

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

2.0 mm

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

1.5 mm

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

PM-MGP 13"x18"
METRIC GENERAL PURPOSE TARGET
PHOTOGRAPHIC

200 mm

150 mm

100 mm

1.0

1.1

1.25

1.4

1.6

1.8

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

1.0 mm

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

1.5 mm

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890

2.0 mm

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890

2.5 mm

A5

A4

A3

PRECISION[SM] RESOLUTION TARGETS

Century

A&P

1303 Geneva Avenue
St. Paul, MN 55119

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890

4.5 mm

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

3.5 mm

THE AUSTRALIAN BANKING AND CREDIT SYSTEM

A. L. GORDON MACKAY

D730.94 M19
Columbia University
in the City of New York
LIBRARY

School of Business

THE AUSTRALIAN BANKING AND CREDIT SYSTEM

THE AUSTRALIAN BANKING AND CREDIT SYSTEM

BY

A. L. GORDON MACKAY

M.A., M.Ec.

LECTURER IN ECONOMICS AND DIRECTOR OF TUTORIAL CLASSES, THE UNIVERSITY OF ADELAIDE, SOUTH AUSTRALIA

LONDON

P. S. KING & SON, LTD.

ORCHARD HOUSE, WESTMINSTER

1931

Bus
31-15543

Printed in Great Britain by
RICHARD CLAY & SONS, LIMITED
BUNGAY
SUFFOLK

D730.94
M19

Dec. 1, 1931 DA/Hec GSP

AUTHOR'S PREFACE

WORK upon this book was begun in 1924 at the University of Adelaide. But the heavy teaching and administrative duties that are usually the lot of a Dominion University teacher made rapid progress impossible. Two years' leave of absence from my Department, spent mainly at Trinity College, Cambridge, and in Europe, provided the real opportunity for finishing the book; and access to the Public Record Office and the British Museum enabled me to obtain material which did not exist in Australia.

This book does not pretend to be a complete history of the Australian banking system, nor is any serious attempt made to solve any of Australia's major financial problems. The main outline of Australia's financial history is, however, presented and some of the larger problems are discussed. Believing, as I do, that before we can suggest remedies we must ascertain the facts, I have not attempted to do anything more than this; but in the two concluding chapters I have been unable to resist the temptation to consider Australia's financial problems in relation to central banking and the future of the British Commonwealth in the Pacific.

I am particularly indebted to Mr. D. H. Robertson of Trinity College for his continuous help and frank criticism during the preparation of the manuscript. Others whom I should like to thank are Mr. John Sutton, formerly an inspector in the National Bank of Australasia, Ltd., Mr. Hulme of the Australian Associated Banks in London and Mr. Laing and Mr. MacIntyre of the Union Bank of Australia, Ltd., in London. Mr. Collins, the Financial Adviser to the High Commissioner for Australia, and a former director of the Commonwealth Bank, has safeguarded my excursions into the history

of that institution; while for what little I know about the practical working of central banks I have to thank the following gentlemen: Sir Otto Niemeyer and Sir Ernest Harvey of the Bank of England; M. Georges Lacout of the Bank of France; Dr. Hülse, formerly of the Reichsbank but now of the Bank of International Settlements; Herr Pagels of the Reichsbank; Mr. Rowe Dutton of the British Embassy, Berlin, and one of the Secretaries to the British Group at the Paris Conference (1929) and at the Hague Conference (1929); Herr Meisner of the Bank of Danzig; Dr. Brauneis of the Austrian National Bank, and Mr. McKenna of the Midland Bank: while Mr. Phillips and Mr. Hawtrey of H.M. Treasury on more than one occasion did their best to prevent me from rushing in where financial angels fear to tread. None of these gentlemen is responsible for the facts and opinions expressed in this book—that is my own responsibility—but to all of them I owe a debt of gratitude for discussing with me problems that I found perplexing.

To the authorities of the Public Record Office for allowing me to work on the manuscripts stored in the Cambridge Gaol at a time when they were being moved to Canterbury, I am particularly grateful.

Finally, I must thank the Rockefeller Foundation and the Council of the University of Adelaide for making it possible for me to spend two years at Cambridge and in Europe, thereby enabling me to complete work which, for lack of material and of leisure, had come to a standstill.

A. L. Gordon MacKay.

Trinity College,
Cambridge,
June 1930.

BIBLIOGRAPHICAL NOTE

Of the original sources available to the investigator, three alone are really useful, viz., the Blue-books of Statistics, the Reports and Balance Sheets of the Australian Banks and the *Australasian Insurance and Banking Record*. The Blue-books are hand-written records based, in part, upon the returns of the Australian banks, and these records contain a wealth of information about coinage, currency and exchange, in addition to the statistics of the banks. The Reports and Balance-sheets have provided the basis of this book both for the accounts of individual banks and for matters like the crisis of 1893. The *Australasian Insurance and Banking Record* may be regarded as the diary or journal of the Australian banking system since 1877, and in it will be found not only an abundance of facts, but also valuable comments and articles upon events of major importance. Of the books, Coghlan and Nash are by far the most useful; while of the year-books and almanacs, that edited by Edward Greville can be recommended.

A complete bibliography will be found at the end of the appendices.

CONTENTS

CHAP.		PAGE
	PREFACE	v
I.	A GENERAL SURVEY OF AUSTRALIAN BANKING	1
II.	THE FIRST PERIOD OF AUSTRALIAN BANKING, 1817 TO 1850	19
III.	THE SECOND PERIOD OF AUSTRALIAN BANKING, 1850 TO 1893	47
IV.	AUSTRALIAN FINANCIAL CRISES	84
V.	THE THIRD PERIOD OF AUSTRALIAN BANKING, 1893 TO 1930	140
VI.	THE AUSTRALIAN BANKING SYSTEM IN RELATION TO CENTRAL BANKING	183
VII.	CONCLUSION	226
	APPENDICES	
I.	A COMPLETE LIST OF AUSTRALIAN BANKS	237
II.	AUSTRALIAN BANKS AT PRESENT IN EXISTENCE	240
III.	LIST OF AUSTRALIAN BANKS THAT HAVE FAILED	240
IV.	BANKS THAT HAVE BEEN BOUGHT OR AMALGAMATED	241
V.	BANKS THAT HAVE TAKEN OVER OTHER BANKS	243
VI.	BANKS WHICH NEVER GOT BEYOND THE HANDS OF THEIR PROMOTERS	244
VII.	BANKS WHOSE NAMES APPEAR IN THE RECORDS	244
VIII.	LIST OF THE TOTALS OF CAPITAL, RESERVE FUNDS, AND BRANCHES	245
	BIBLIOGRAPHY	247
	INDEX	251

THE AUSTRALIAN BANKING AND CREDIT SYSTEM

CHAPTER I

A GENERAL SURVEY OF AUSTRALIAN BANKING

THERE is no Act of Parliament, so far as can be ascertained, which defines the word "bank." The Victorian Government did once set up a Commission in 1887 charged among other things with finding a definition and with making a recommendation, but the definition, though it went before the Victorian House, did not become incorporated in a Bill. The bankers' conference, which met in Sydney in June 1895, discussed the question and decided to advise the various Governments that a careful inquiry should be made before the word "bank" or "savings bank" could be used by a company registering under the Companies' Act.[1] Nothing, however, came of this suggestion. Our difficulty lies in the fact that, in early days, so many institutions called themselves banks which had no claim to the title at all. These companies were really engaged in land speculation. They usually obtained options on large estates, which they cut up and sold at a value considerably above that at which they had been acquired. To obtain possession of the money for the purchase of such estates, these institutions offered high rates of interest on money deposited with them, a higher rate than that offered by the trading banks. But in no sense were these companies performing the true function of deposit and issue. There were a large number of them—upwards of sixty—and their names may be seen in Coghlan in his Appendices. In

[1] *A.I. and B.R.*, July 17th, 1895.

these pages the word "bank" does not apply to institutions of this type. We shall be concerned only with legitimate banks dealing in debts and performing the functions of deposit and issue and the other activities normally associated with the business of banking in all modern communities. But some banks will be included which did not issue notes—because there were times when some of the important banks did not do this—and at the present time none of them does it, since it is now the function of the Commonwealth Bank of Australia.

Of this type of bank proper, Australia has known in all fifty-seven. This figure includes the Commonwealth Bank, but does not include banks which belong to another country but which have one or two branches in Australia: these comprise the Comptoir National d'Escompte de Paris, the Yokohama Specie Bank, the Bank of New Zealand and the National Bank of New Zealand. Nor is there included in this figure the group of Indian banks which, in 1865, opened branches in Melbourne for the purpose of buying gold and for effecting exchange.[1] Of these fifty-seven banks, which were established at different times, there are only sixteen in existence to-day.[2] There are, however, twenty banks operating in the country—the additional four being the non-Australian banks that are mentioned above. We have therefore to render an account of the forty-one banks which are no longer in existence. Sixteen failed at one time or another, and twenty-five merged their identity in others or were bought outright.[3] The following is a list of the absorptions that have taken place:—

Name of Absorbing Bank.	Name of Bank Taken Over.
The Bank of Australasia.	The Cornwall Bank in 1835.
The Union Bank of Australia.	The Bank of South Australia in 1892. The Tamar Bank of Van Diemen's Land in 1892. The Bank of Bathurst in 1841.

[1] *A.I. and B.R.*, Sept. 16th, 1889, p. 661.
[2] See Appendix II for a list of them.
[3] See Appendices III and IV for a list of them.

Name of Absorbing Bank.	Name of Bank Taken Over.
The Western Australian Bank.	The Bank of Western Australia in 1841.
The Bank of New South Wales.	The Western Australian Bank in 1927.
The English, Scottish and Australian Bank, Ltd.	The London Bank of Australia, Ltd., in 1921. The Commercial Bank of Tasmania in 1921. The Royal Bank of Australia, Ltd., in 1927.
The Australian Bank of Commerce.	The Australian Joint Stock Bank, Ltd., in 1910. The City Bank of Sydney in 1918.
The National Bank of Australasia, Ltd.	The Colonial Bank of Australasia, Ltd., in 1918. The Bank of Queensland, Ltd., in 1922.
The City of Melbourne Bank, Ltd.	The Melbourne Banking Co. in 1883. The Joint Stock Bank of Victoria, Ltd., in 1882.
The Commercial Bank of Australia, Ltd.	The Mercantile Bank of Sydney in 1891. The Australian and European Bank, Ltd., in 1883. The Town and Country Bank, Ltd., in 1887. The National Bank of Tasmania, Ltd., in 1917.
The Mercantile Bank of Australia, Ltd.	The Australian and the Economic Bank in 1885.
The Federal Bank of Australia, Ltd.	Sydney and Country Bank.
The Bank of Queensland, Ltd.	The Royal Bank of Queensland, Ltd., in 1917. The Bank of North Queensland, Ltd., in 1917.
The Commercial Banking Co. of Sydney, Ltd.	The Bank of Victoria, Ltd., in 1927.
The National Bank of Tasmania, Ltd.	The Bank of Tasmania in 1885.

It can be seen from this list that eleven of these twenty-five absorptions took place in or after 1917, and that the remaining fourteen were spread over the whole period 1836 to 1910. This rather sudden development of

bank absorptions will be discussed in fuller detail in Chapter V.

In regard to the classification of Australian banks, there are two ways in which this can be done: according to the location of their head offices or according to the nationality of the shareholders owning the majority of the capital. Baxter [1] adopts the former classification, viz.:

(*a*) Banks with head offices in London.
(*b*) Banks with head offices in Australia.

Of the first type there are three and of the second thirteen. The three London banks are, the Bank of Australasia, the Union Bank of Australia, Ltd., and the English, Scottish and Australian Bank, Ltd. If we take the other form of classification the distribution is exactly the same.

An interesting problem in Australian banking is to discover whether Australia has too many or too few banks for the amount of deposits which exist and the number of the population. In 1893, just before the big financial crisis, Australia possessed twenty-six banks for a population of about two millions, and well over £150,000,000 in deposits. In 1916, the year before the recent amalgamations, she possessed thirteen banks for a population of approximately six millions and £22,768,450 in deposits. In 1926, when Australia possessed fifteen banks for her six million people, the *Statist* was of the opinion that Australia had too few banks.[2] Curiously enough, when that number was reduced to thirteen, owing to amalgamations, the same journal was inclined to think that the number should be reduced, in order to bring about the extension of connections, though it was pointed out that in Australia there was one office to every 2400 people, which was probably as large a number as it was possible to get. It is very difficult to make intelligent or useful comparisons with other countries in this connection, because of two factors: the method of banking organisation and the

[1] " Banking in Australia from a London Official's Point of View."
[2] *Vide* International Banking Section, Nov. 6th, p. 706.

stage of development of the countries compared. It is difficult to compare Australia and the United States, because the Australian banks are organised upon a system of branch banking, whereas the American banks are not. In the same way, it is unprofitable to compare the banking systems of Great Britain or Germany with the Australian, because both Great Britain and Germany are countries of high industrial concentration, and Australia is not. In the United States the agricultural and the industrial populations are almost balanced; in Australia the larger proportion of the people is still engaged in primary production. It follows, therefore, that no useful comparison can be made, because questions of distance and stage of development make such comparisons invalid. It appears that the only test by which we can judge whether a country has too many or too few banks is to see whether the existing banks are paying their way and are placing sufficient sums to reserves to enable them to face a crisis, while at the same time the reasonable needs of their customers are being met. The banking system of Australia did not meet this test in 1893. There are many who would claim that it did not meet this test during 1923 and 1924 and again in 1928–29–30. The claim could be made with less justice in these later periods than in 1893.

The development of the Australian banking system falls, rather conveniently, into three periods. The first opens with the foundation of the colonial settlements and terminates in 1850. The second begins with the discovery of gold in 1851 and runs forward to the banking crisis in 1893. The third runs from 1893 to the present day. The first of these periods saw the establishment of eighteen banks, not all of which survived until 1850, though the majority of them did. During this period there were serious difficulties about the shortage of currency; while towards the end of the period there was a banking crisis in which two banks failed and one merged its identity with a larger bank. The second period saw the creation of thirty-three banks. This was not a net

increase, because eleven banks had failed and eleven merged their identity in other institutions. The actual number of banks operating at the end of the period was twenty-six. This period of Australian banking was an interesting one; there was the rise and fall of the gold discoveries, a banking crisis in Queensland in 1866, while in the eighties there was a land boom which lasted, with increasing intensity, for ten years. The third period begins *after* the banking crisis of 1893, and still continues. The number of banks that were founded was six, but there were failures and amalgamations which reduced the total number to sixteen. In the earlier part of the period, all of the banks, save nine, were paying off their creditors as the result of the 1893 crisis. There were two wars in which Australians took part. The second of these wars gave Australian bankers their first real taste of exchange difficulties, and left behind problems connected with exchange and credit control which are not only not solved, but are very imperfectly understood. The cost of the war produced a huge war debt which was incurred by borrowing partly in Great Britain, but mainly in Australia.

The Australian banks were founded in groups or clusters. A number of banks would be founded within a short period of years, or as many as three would be established in one year; then there would be an interval, and then another crop of banks would develop. Why these bank clusters developed at all and why they developed when they did, together with their relation to the crises that occurred, will receive consideration when each cluster formation is being discussed and when attempts are being made to analyse the flow of capital into the Australian banking system. This discussion will be found at the ends of Chapters II, III and V. By 1888 Australia was in possession of as many banks as her population and business activity could support—she really had more than she could *profitably* support—and, with the exception of the Commonwealth Bank, which was founded under special circumstances, no new bank

was established until 1923, when the Primary Producers' Bank of Australia was formed. This statement needs qualification. Two new banks were formed, one in 1910 and one in 1917; but they did not represent the growth of new business. The Australian Bank of Commerce was formed to take over the dying business of an old bank; while in 1917 two banks merged their identity and took a new name, the Bank of Queensland, Ltd. It can be seen, therefore, that though they were banks with new names, they were not new banks in the same sense that the Commonwealth Bank and the Primary Producers' Bank were.

From 1888 a process of digestion and assimilation set in. This was hastened by the crisis in 1893, when several of the weaker banks failed. This process of amalgamation would have gone forward from that date but for the fact that until 1900, and in some cases much later, the majority of the banks were not in a position to amalgamate, dearly though they would have liked to do so, because of their huge liabilities left over from the 1893 crisis. It was not till 1917 that this process of amalgamation was renewed, but once it started it went steadily forward until the twenty-three banks existing in 1916 were reduced to sixteen by 1927, and of these sixteen, three were new banks formed after 1923.

The cluster formations which are so characteristic of the Australian banking system came in six bursts or waves. The first burst came in the period 1817–30, during which time eight banks were established. As far as one can judge from an examination of the records of the time, these banks were founded in various places in response to the needs of the time: in New South Wales, where three were formed, in Van Diemen's Land, where four were formed, and in Western Australia, where one was formed. The main financial need of the time was the maintenance of a decent currency and the withdrawal of the Spanish dollar.

Then there was an interval of three years before another bank was formed. From 1834 to 1841 ten new banks

were established, two of them being banks which developed into the largest institutions of which the country boasts, the Bank of Australasia and the Union Bank of Australia, Ltd. What called these ten banks into existence was the success of the eight already in existence, the high rate of interest which was being paid, and the ordinary financial needs of a population that was expanding. It appears that by 1841 the banking needs of the community had been more than met, because in that year there developed a financial crisis which ruined two banks and caused the amalgamation of another with the Union Bank of Australasia, Ltd. Following this crisis there was a lull. Trade was slack and some of the banks were changing over from the partnership form of organisation to that of joint stock.

The third cluster appeared in 1851 and extended to 1858. During that time eight banks were established. This growth of banks is easily explained by the discovery of gold and by the economic activity that was thereby set in motion. The majority of the banks were sound, lasting many years. The last of the group to be established, the National Bank of Australasia, Ltd., after a rather trying uphill fight in its early years, has come to be one of Australia's big banks. The addition of eight banks to the existing number does not seem to have had any untoward effect upon the community, and the main reason for this was the considerable increase in the population.

In 1863 appeared the fourth cluster. The period lasted until 1873, during which time thirteen banks were established. There does not appear to have been any urgent need for the establishment of these banks, and only four of them are in existence to-day. In 1866 there was a crisis in Queensland, during which one bank failed.

The next cluster of banks appeared in 1877. Between this date and 1888 twelve banks were established. Most of these owed their existence to the fictitious rise in values generally, but particularly to the rise in land values. This growth in the number of banks was quite unwholesome, and their rapid development had much to do with causing the crisis in 1893. These banks were mainly concerned with financing land speculation, and, when the policy of refusing to make advances against real estate was initiated shortly after 1888, they found the main source of their existence dried up.

From 1888 to 1910 no new banks were formed. From 1910 to 1926 six banks were formed. Two were established at the beginning of the period, two in the middle and two at the end. So that this cluster lacked the distinctive feature of intensive grouping and became, instead, a series of isolated formations without any common factor linking the individual units in the cluster together, as did gold in the third cluster or rising land values in the fifth. Perhaps the foregoing pages in which these clusters are discussed can be briefly summarised in the form of a table.

Date.	No. of Banks in Cluster.	Duration of Cluster.	Interval since Last Cluster.	Approximate Cause of Cluster.
1817–1830	8	12 yrs.	—	Need for sound currency.
1834–1841	10	8 yrs.	3 yrs.	Population expansion; high interest.
1851–1858	8	8 yrs.	10 yrs.	Discovery of gold.
1863–1873	13	11 yrs.	5 yrs.	New industries after gold rushes.
1877–1888	12	12 yrs.	4 yrs.	Land speculation.
1910–1926	6	17 yrs.	22 yrs.	Various unconnected causes.

Leaving the discussion of the cluster formations, we go on to consider some of the outstanding points of interest in the Australian banking system. In the main, as a system it does not differ very much from any other, except that, perhaps, it possesses certain minor features of difference which are determined by local conditions. Moreover, the banking system in Australia of the twentieth century is not quite the same as the banking

system before 1893. It is difficult to pick out features of an outstanding character which are true for banking history both before and after that date. The present banking system is a closely organised ring of fifteen trading banks, not all of which are members of the Associated Banks, by which name the banks collectively are known. This Association meets and fixes rates regularly and, presumably, determines upon a policy in matters which affect the common interest. But apart from matters of this type, the banks work as individual units and compete very strenuously for the available business. Their main business is that of financing the wheat and wool from about September to May, during which time anything from £70,000,000 to £100,000,000 is involved. During the rest of the year they are adjusting their available money supply so as to be ready for the next harvest and wool clip when they appear. In this there are two main complications, viz. the raising of Government and municipal loans and the calls made on the banks to finance secondary industry, though this latter demand is only of recent development. A minor complication is the fact that taxation payments fall due just after the wheat and the wool have been financed, and with the development of heavy taxation during and since the war, the banks have been called upon to help with temporary advances until businesses have managed to get in their own money through the medium of sales. The wool clip, the wheat harvest, loans raised in London are means by which Australia accumulates credits in London out of which she pays for her imports and interest charges. At the same time, against these credits in London the banking system in Australia is advancing in that country to farmers, pastoralists and the governments funds to enable them to carry on till the wool clip and the harvest have been sold or, in the case of the governments, till taxation comes in. At the same time, assistance has to be rendered to secondary industry. The problem involved here is to distribute the funds of the banks as evenly as possible throughout the year, so as to avoid an

unusually heavy call upon the banks at any one period of time. If the distribution of demands can be evenly maintained, then a moderate gold reserve will serve to support the liabilities of the banks, but if, for any reason, these demands fluctuate unduly, the banks may be caught with their reserves of gold too low or with all their funds in London. High rates are then charged to stave off the demand for credit until the banks are in a better position to meet such demands. Situations such as this arose in 1923 and 1924, and were only met ultimately by legislation, permitting the issue of notes against funds in London. The existence of situations like this has led many to turn their minds towards the idea of a central bank as the best way of developing a suitable system of credit control.

This is the position of the Australian banking system at the present moment. But this position has not always existed; it has only come about through the process of time. We may now, with advantage, look more closely at some of the main features of the system.

It should be borne in mind that Australian banking is an offshoot of that found in Great Britain, and that the nature of the system which began in Australia in 1817 has changed considerably since 1893. There are characteristic features prior to and after 1893 which are dissimilar; there are also features which are common. The changes in the former were brought about by the economic development of the continent; the common features prior to and after 1893 are those that are found in all banking systems.

It is probably true to say that, in the early decades of the nineteenth century, English bankers and the Imperial Treasury authorities were as experienced in banking affairs as any in existence at the time. When they projected a banking system into a remote corner of the earth, such as Australia, they were naturally influenced by their own experience, and were not inclined to tolerate the ideas upon banking which were both new and colonial in origin. The early charters of the Australian banks, worked out in London, forbade advances against land and

movable property, and confined the activities of the banks to those of discount and deposit. The early records of the Colonial Office [1] show how impossible the discount of commercial paper was in a new country. In 1843, during the financial crisis, the opposition of the bank managers in Australia and of the pastoralists and others to such restrictions took the form of an Act of the New South Wales Legislative Council "to give a preferable lien on wool from season to season, to make mortgages of sheep, cattle and horses valid without delivery to the mortgagee." The Imperial Parliament rejected the measure, and it was not till the New South Wales Premier had visited London to explain the colonial point of view that the measure became law. The passage of this Act laid the foundation of the Australian banking system and made possible the later pastoral development. Hard upon this Act came the Land Acts designed to open up the land for settlement; but the free selection clauses of the Acts led to an unexpected result. The squatters already in possession of the land, with an eye to enlarging their properties, were not disposed to see newcomers "squat" alongside the already occupied land. They therefore applied to the banks for help to obtain possession of additional land. Under their old charters the banks would have been unable to do anything. As it was, under the new Act the banks readily gave the required help, and there followed the building up of those gigantic pastoral properties in the hands of a few squatters which is so characteristic a feature of Australian land history. It was the financial policy of the banks that supported the financial accumulation of the landed estates. The following statistics will illustrate this. By 1885 the total debt due to the banks was £90,000,000, and of this amount £55,000,000 was believed to be owed by squatters.[2] To this should be added £25,000,000 in paid-up capital and loans, in almost equal proportions, which English investors had placed

[1] C.O. 206, Nos. 63–92.

[2] *The Year Book of Australia*, 1885. Edited by Edward Greville.

with land mortgage and investment societies.[1] Hence the first characteristic of the Australian banking system has been the tendency to finance the accumulation of landed estates; and this was done by the passage of legislation which over-ruled clauses in the charters of the Australian banks.

In 1851 came the discovery of gold and the formulation of plans for new banks. The existing banks in London worked under charters which limited the liability of their shareholders to a specific amount beyond their paid-up capital, and also prescribed limitations in the nature of their business. Banks so registered generally refrained from calling up more than 50% of their reserve liability. When banks were not registered in London, the local Acts of incorporation usually defined the liability of the shareholders as double the amount of the shares, but in no case was there unlimited liability.[2] Then the Colonial Office, foreseeing difficulties in the registration of banks by two authorities, sent a circular to the five Australian Colonies setting forth certain principles which were to be embodied in all colonial Acts relating to banking, and charging the Governors with the task of seeing that these principles were embodied in the Acts before they were sent home for Royal approval. Mr. H. Gyles Turner, manager of the Commercial Bank of Australia, in discussing this,[3] quotes Regulation 9 of the Circular as follows: "The Company not to advance money on the security of lands, of houses or ships or on pledge of merchandise, nor to hold lands or houses except for the transaction of business or be engaged in trade except as dealers in bullion or bills of exchange, but to confine its transactions to discounting commercial paper and negotiable securities and other legitimate business." He adds, however, that this clause was a dead letter, and in this view the Victorian Royal Commission on Banking in

[1] *The Year Book of Australia*, 1885. Edited by Edward Greville.

[2] See discussion of these points by Walker in *A.I. and B.R.*, January 1888, and by Turner in May 1889.

[3] *A.I. and B.R.*, May 1889, p. 396.

1887 concurred. It was apparently left to the customers of the banks to raise the question of the legitimacy of certain Acts in the courts. There are two interesting cases, which Turner cites in his discussion, illustrating the situation that existed. In the first case, heard in the Supreme Court of Victoria—the London Chartered Bank *versus* Hayes—the judge held that for a bank to violate its charter in respect of the type of its activities did not make the act illegal or void the mortgage, but that the Crown could constitute such an act as a ground for the forfeiture of the charter. This was in the case of an English bank operating in Australia. In the case of a bank operating under an Australian Act—the Colonial Bank of Australia *versus* Droop—the same judge held that such a mortgage was illegal in contravention of a statutory prohibition of an Act of Parliament. Briefly, then, the position was that for an English bank such a mortgage might lead the Crown to take away the charter; for an Australian bank such a mortgage was illegal. The anomaly was removed by the Companies Statute of 1864, which placed the responsibility of deciding the scope of the operations of the bank in the hands of those immediately concerned, *i.e.* of the shareholders and directors. From this discussion it appears that a second feature of the Australian banking system was that approximately half of the capital of the banks was uncalled, it being left as a second line of defence, while a third feature was the method by which it was possible to get round clauses in bank charters which forbade lending against land. This was a feature of the system only up to 1864, when it disappeared. It should be noted that in 1887 Queensland passed legislation allowing direct advances to be made against leasehold land.

Coghlan [1] refers to two features of Australian banking which distinguish it from English banking. One feature has reference to reserves, and the other to the duration of deposits. In discussing Australian banking before the war and presumably after 1893, he refers to

[1] "Labour and Industry in Australia," Vol. III, page 1641.

the fact that when advancing against land and stock it was necessary to maintain heavy holdings of gold, approximating to one-seventh of the banks' liabilities. He goes on to state that these holdings were heavier in proportion than those of the Bank of England. As far as can be discovered, this is no longer the case. With regard to the duration of deposits, in England some fixed deposits are made for a very short time; in Australia the shortest time for a fixed deposit is three months, while the average time for a fixed deposit is twelve months, and in very many cases deposits are for two years or more.

The very nature of Australia's wealth and her geographical position make the maintenance of heavy reserves a necessity. For instance, the recovery of advances against wheat and wool largely depends upon the prices of these commodities in the world's market. If this price is continuously low the value of the land on which wheat and wool are grown will fall, and to this danger there is to be added the complications which arise from the destruction of values by either a drought or a flood. Sometimes the fall in world prices is so serious as to dislocate the whole of Australian trade, as, for example, in 1929–30, when prices fell almost 40%, when, in order to restore the balance of trade, which was seriously against Australia, the banks became the instrument for a serious restriction in the import trade. No one imagines that this is an intelligent way of restoring equilibrium, for it hits England's export trade almost as seriously as it causes unemployment in Australia. In this respect Australia is at the mercy of the prices obtained for her wool and wheat. Had Australia a sufficiently large population to be able to dispense with overseas markets for absorbing the bulk of her primary production, as is the case in the United States, this danger of dependence on world prices would not be so potent. The movement recently in the direction of co-operation in the pooling of wheat, and the efforts of Australian farmers to link up with farmers in Canada in an attempt to control the flow of wheat on to the world's market, were

a reaction to the effect of low wheat prices on the domestic situation in Australia.

Another risk in Australian banking is the depreciation of assets which arises from changing local conditions; for example, the values of areas that have been developed round a centre dependent on a single commodity, such as gold in Bathurst or Bendigo, or copper in Cobar, or silver in Broken Hill. The value of everything here depends on the presence of population and on the commodity. The same is true of areas where special forms of development are in progress, such as the locking of the Murray. When either the commodity gives out or the public works programme ceases, values in these areas decline, and with them the value of securities. In circumstances such as these, reserves, heavier than in old countries, where values are stabilised, are essential.

The character of Australian industry has been changing since the period 1850–93; and that change set in during the late eighties and was fully apparent by 1900. In 1898 Sir Thomas Sutherland, Chairman of the Court of Directors of the Union Bank, discussed this changing character of Australian industry and its bearing on the profits of banking. He pointed out that prior to 1893 about 75% of Australia's wealth was pastoral, that Australia had a monopoly in the supply of wool, and that with a small number of banks the import and export trade made high banking profits a possibility. But by 1898 everything was changing. Though much of Australia's wealth was still pastoral, she no longer had the monopoly of the wool supply, and a very large number of banks were operating where previously there had been only a small number. In these circumstances banking profits were sure to decline. Two years prior to this, in 1896, Martin Ridley Smith, Chairman of the same Court of Directors, had referred to the same fact in these words: "The period of high interest in Australia is over. Australian banking will become largely what English banking is, *i.e.* a large turnover with a low rate of interest."[1]

[1] To the shareholders of the Union Bank, Oct. 1st, 1896.

Looking forward some twenty years or more, it is interesting to see whether these prophecies have been fulfilled. We find, for instance, in 1921 (March) the financial critic of the *Bulletin* unconsciously taking up Martin Ridley Smith's point. Commenting on the annual report of the Bank of Adelaide issued on March 29th, 1921, he writes: "Australian banking is not a profitable business," and he goes on: "The banks are to blame for this—their branch competition is absurd and hence costs are high." However, the International Banking Section of the *Statist*, November 1925, referred to the *prosperity* of the Australian banks in the following words: "On the whole, it may be said that the banks in Australia have in recent years experienced more prosperous conditions than the banks in any other country of the world. All commercial banks have extended their businesses very greatly since before the war, and, unlike the experience in other countries, no break in the forward movement occurred during the world-wide economic depression of 1920–21."[1]

These four quotations are not contradictory. They enable us to see what was really going on. In 1896 Martin Ridley Smith thought that big turnovers and small interest rates were to be the rule. In 1898 Sir Thomas Sutherland thought that there was to be a decline in banking profits and that there were too many banks operating in Australia. In 1921 the *Bulletin* critic pointed out that banking was unprofitable because competition was too keen. Yet in 1925 the *Statist* thought that Australian banks were doing particularly well. When Martin Ridley Smith and Sir Thomas Sutherland spoke, there were twenty banks competing for the existing business. When the *Bulletin's* critic wrote, the process of amalgamation had only just set in. When the *Statist's* critic wrote, that process was further advanced, and moreover Australian banks were beginning to finance secondary industry, while the profits made during the war by the trading classes

[1] *Statist*, International Banking Section, Nov. 7th, 1925.

were beginning to make themselves felt in the import industries.

Finally we may notice the spirit of co-operation that exists in banking circles in moving the wool clip and the wheat harvest. In 1880 the amount involved was £30,000,000, now it must be more than twice that amount. During the harvest period the banks work in unison, but when that period is over they are free to compete for service, though they still maintain similar discount and overdraft rates.

We may now sum up the outstanding features of the Australian banking system. Prior to 1893 there was first the tendency for the banks to finance the accumulation of the large estates; second, the banks found it necessary to obtain legislation to neutralise certain clauses in their charters forbidding loans against land and movable property; and third, approximately half of the banks' capital remained uncalled. Since 1893 the following characteristic features may be noticed:—

(*a*) Fixed deposits average twelve months' duration.
(*b*) Heavy reserves have to be maintained because of the special economic and climatic conditions in Australia.
(*c*) The banks are not mortgage banks.
(*d*) The tendency for high dividends and small turn-over to give place to small dividends and large turn-over.
(*e*) The existence of co-operation among the banks during the harvest, and the competition for service within an area of highly protected discount and overdraft rates.

CHAPTER II

THE FIRST PERIOD OF AUSTRALIAN BANKING, 1817 TO 1850

THE first period of Australian banking began in 1817 with the foundation of the Bank of New South Wales and closed in 1850 just prior to the discovery of gold. During that period eighteen banks were founded. They were:—

Date.	Title of Bank.	Location of Head Office.
1817.	The Bank of New South Wales.	Sydney.
1823.	The Bank of Van Diemen's Land.	Launceston.
1826.	The Bank of Australia.	Sydney.
	The Waterloo Company.	„
1828.	The Derwent Bank.	Launceston.
	The Cornwall Bank.	Hobart.
1829.	The Bank of Western Australia.	Perth.
1830.	The Commercial Bank of Tasmania.	Hobart.
1834.	The Commercial Banking Co. of Sydney.	Sydney.
	The Bank of Australasia.	London.
1835.	The Bank of South Australia.	„
	The Tamar Bank.	Launceston.
1836.	The Bank of Bathurst.	Bathurst.
1837.	The Union Bank of Australia, Ltd.	London.
1839.	The Bank of Sydney.	Sydney.
1840.	The Royal Bank of Australia.	Melbourne.
	The Bank of Port Phillip.	„
1841.	The Western Australian Bank.	Perth.

Three of these banks had their offices in London and the remainder had theirs in Australia, scattered round the centres of population; in Sydney (where five banks had their head offices), in Melbourne (where two had their head offices), in Launceston (where three had their head offices), in Perth (where two had their head offices), in Hobart (where two had their head offices), and in Bathurst (where one had its head office). The most important

of these banks was the Bank of New South Wales, which was destined to become Australia's largest bank. There are three other banks of importance in the list, the Bank of Australasia,[1] the Union Bank of Australia, Ltd., and the Commercial Banking Co. of Sydney. Eight of the Banks failed at one time or another, viz. the Bank of Van Diemen's Land in 1891, the Waterloo Company in 1832, the Bank of Australia in 1848, the Derwent Bank, the Tamar Bank in 1838, the Bank of Sydney in 1843, the Bank of Port Phillip in 1843 and the Royal Bank of Australia in 1850. Of the remainder, the Cornwall Bank was taken over by the Bank of Australasia in 1836, the Bank of Western Australia by the same institution in the previous year; the Commercial Bank of Tasmania was taken over by the English, Scottish and Australian Bank in 1921; the Bank of South Australia was bought by the Union Bank of Australia, Ltd., in 1892, and the Bank of Bathurst was absorbed by the same institution in 1841; while the Western Australian Bank was taken over by the Bank of New South Wales in 1927. Hence of the eighteen banks founded during the first period of Australian banking only four are in existence to-day. Thus quite early in Australian history we notice the tendency of the banks to amalgamate.

The causes leading to the foundation of Australia's first bank are connected with the convict origin of the colony. The British Government in establishing Port Phillip (Sydney) as a convict colony did not appear to realise that any form of money would be required, and made no provision at all for a banking institution or a currency. The result was that the colonists were driven to improvise a currency or to accept the Spanish dollar, which was the most common form of currency to be found in those countries near Australia bordering on the

[1] The Bank of Australasia was projected in 1832 as the Royal Bank of Australasia and South Africa. H.M. Treasury refused the charter. Then the idea was to incorporate the word Ceylon in the charter. In 1835 the charter was restricted to Australasia (*A.I. and B.R.*, May 16th, 1889, H. G. Turner's address).

Pacific. These dollars were in a most unsatisfactory state, and it was for the purpose of creating a proper system of currency that the first bank was established. But a currency was not the only factor in the situation. Men interested in the welfare of the Colony and hoping for the return of prosperity after the Napoleonic wars realised that progress in Australia would be impossible without a bank to generate the necessary monetary power to set the wheels of industry in motion; and if there was to be an export of capital from England, something in the way of a bank would be required.

It was considerations of this nature that led Governor Macquarie to sanction the calling of a meeting to discuss a proposal to establish a bank. On November 22nd, 1816, in the chambers of Judge Advocate Wylde in Sydney a small group of men met and adopted the proposal, and on April 8th, 1817, the bank, under the title of the Bank of New South Wales,[1] opened for business in Macquarie Place, Sydney. The bank made progress, and this fact, no doubt, had some bearing upon events which led to the opening of other banks, for in 1823 the bank of Van Diemen's Land was established in Launceston, Tasmania, and in 1826 the Bank of Australia and the Waterloo Company.

The Bank of New South Wales soon met with all kinds of difficulties. From the very beginning there were those whose interests were affected by the withdrawal of the old Spanish dollar currency, which disappeared after 1826. These men circulated rumours about the stability of the bank, and in this and similar ways damaged its reputation. In 1826 some of its notes were forged, and these got into circulation. Then there was a run on the bank, during which £90,000 were withdrawn in a week. Eventually the Government stepped in to support the bank. The other banks, though they were not as firmly established as the Bank

[1] Its real title was the New South Wales Bank. This bank in 1850 was merged in the Bank of New South Wales, specially formed for the purpose. Vide *Year-Book of Australia*, 1885, page 666, ed. Edward Greville.

of New South Wales, do not appear to have been troubled by forgeries, misrepresentation or runs upon them by their depositors.

As can be seen from the list on page 19, there was a revival of activity in the banking business from 1826 to 1841, but particularly in the years 1826–30. There were various reasons for this. One reason was the development of the district that came to be known as the District of Port Phillip. This is the Victoria of to-day. Prior to this time all financial operations were centred in Sydney. The opening of financial institutions in Port Phillip was a sign of a breakaway from Sydney. Mr. H. Gyles Turner quotes a missionary, a Quaker, visiting Port Phillip in November 1837 as saying[1]: "Almost everything, including labour, was paid for by order on Sydney or Van Diemen's Land; the discount required by the few persons who had cash was from 20% to 40%. A mechanic received half his wages in goods charged at about 30% profit, and the rest in an order on which he paid his employer 10% discount for cash." But on February 8th of that year, Turner goes on, there appeared in the *Melbourne Advertiser* an announcement that Mr. F. A. Rucker would receive deposits and discount bills and orders on Van Diemen's Land for account and under responsibility of the Derwent Bank Company at Hobart Town, and the rate of discount offered was 5%. In the same year the manager of the Bank of Australasia, with a clerk and two bull-dogs to guard the cash, sailed from Sydney in a Government cutter to Melbourne to open a branch. In 1838 the Bank of Port Phillip was projected, though it did not actually start operations till 1840.

But the development of a new centre did not of itself alone account for the growth of new banks. Nash, for instance, attributes it to the success which Australia was enjoying in the production of wool and in the demand for land in the eastern parts.[2] This is probably true; but the population had increased from that of a mere

[1] *A.I. and B.R.*, May 16th, 1889, "Victoria and its Metropolis."
[2] "The Banking Institutions of Australia."

convict settlement to 132,000 people by 1837.[1] The satisfaction of the economic needs of these folk required capital, and the demand for capital was so great that the rate of interest was 8%, and colonial profits were realising 15% per annum.[2]

Though the sudden development of so many banks could be looked upon as evidence of progress, their very number had the effect of increasing competition. This led to the establishment of branches without justification and to an increase in liabilities more than the gold holdings of the banks warranted. This led to over-trading, and then the price of wool fell. This produced the crisis of 1841–2–3 which is described in Chapter IV. Three of the weaker banks failed, the Bank of Sydney, the Bank of Australia and the Bank of Port Phillip; dividends were withheld by some banks, whilst others had recourse to their reserves as a means of keeping up dividends. The crisis taught the banks the necessity for overhauling their organisation and that wool could fall in value, even in Australia.

The banking system of Australia slowly recovered from the crisis during the years 1844–50. The discovery of gold in 1851 gave the necessary fillip to business and led to a development that changed the character of Australian industry. But before we can enter upon this story it is necessary to consider the development of the coinage, currency and the course of exchange in New South Wales, Tasmania, South Australia and Western Australia.

The Coinage and Currency

In 1822, according to the records in the Colonial Office,[3] the coinage of New South Wales consisted of 80,000 Spanish dollars, 40,000 three-quarter dollars and 30,000 quarter dollars, with about £600 worth of pence and half-pence. In addition to this, the currency consisted of £16,000 Treasury Bills and £27,000 in notes of the

[1] Prospectus of the Union Bank of Australia, Ltd., 1837. [2] *Ibid.*
[3] C.O. 206, Nos. 65–92. The whole of this section is based upon these sources.

Bank of New South Wales. The rate of exchange was from 2½% to 9% premium. The Spanish dollars were received by the Treasury at a premium 60% above their normal value. A promise to do this had been made by the Treasury on July 1st, 1813. During the year 1822 both the quantity of Treasury Bills and the notes of the Bank of New South Wales fluctuated, and by June the Treasury Bills were down to £9000 and the notes of the bank to £18,000. By December the Treasury Bills had risen in volume to £14,000, but the notes of the bank fell to £13,000.

Confining ourselves to the coinage, we find that in 1823 the total value of the coinage was £210,000, of which £120,000 was Spanish dollars, £40,000 was three-quarter dollars, £50,000 was quarter Spanish dollars, and the remaining £600 was pence and half-pence. About this time the Spanish dollar currency was called in, and in 1825 the returns show a total volume of £30,000 in British currency. But the following are the values quoted for Spanish dollars:—

Dollars, three values: (*a*) current value 5*s.*; (*b*) sterling value 4*s.* 4*d.*; (*c*) value for assay 4*s.* $3\frac{68}{100}d.$

Three-quarter dollars, two values: (*a*) current value 3*s.* 9*d.*; (*b*) sterling value 3*s.* 3*d.*

Quarter dollars, two values: (*a*) current value 1*s.* 3*d.*; (*b*) sterling value 1*s.* 1*d.*

Rupees, three values: (*a*) current value 2*s.* 3*d.* to 2*s.* 6*d.*; (*b*) sterling value 2*s.* 1*d.*; (*c*) value for assay 2*s.* $0\frac{56}{100}d.$

From now onwards the main reference in the returns is to British coinage. The last reference to dollars is in 1831, when their exchange value with British coins is quoted as follows: dollars 4*s.*, half dollars 2*s.*, quarter dollars 1*s.* The total amount of coinage in existence in the colony from 1828 to 1850 can be seen from the table on page 25.

Taking up the story of the note issue, and beginning

with the year 1823, we are informed that there were 70,304 in dollars worth of notes, but that there were also sterling promissory notes of amounts varying from 2*s.* 6*d.* to £1 of a total value of £114 2*s.* 6*d.* These notes were issued by the Waterloo Company. In 1825 the total issue of the bank and of the Company amounted to £117,000. No amounts at all are returned for the year 1826, but for 1827 the amount was £30,000, of which £10,000 was in non-British denominations. From this date onwards there are no complications, and the figures can be seen from the following table:—

TABLE SHOWING THE AMOUNTS OF NOTES AND COINS IN THE COLONY OF NEW SOUTH WALES, TOGETHER WITH THE POPULATION IN THE COLONY.

Date.	Coinage.	Note Issue.	Population.
1822	Records faulty.	Records faulty.	30,756
1823	£210,000	,, ,,	31,729
1824	Records faulty.	,, ,,	?
1825	30,000	,, ,,	33,675
1826	Records faulty.	,, ,,	34,649 [1]
1827	,, ,,	30,000	35,623
1828	40,000	50,000	36,598
1829	40,000	35,000	41,450
1830	Records faulty.	Records faulty.	46,302
1831	87,500	40,000	51,155
1832	114,275	43,000	53,524
1833	Not stated.	Not stated.	60,794
1834	200,000	72,000	66,212
1835	289,408	91,870	71,592
1836	445,000	99,487	77,096
1837	450,000	112,202	85,267
1838	520,127	124,375	97,912
1839	516,069	177,635	114,386
1840	397,851	205,397	129,463 [2]
1841	435,783	212,645	149,669
1842	476,867	192,577	159,889
1843	443,972	154,633	165,541
1844	579,923	164,882	173,377
1845	875,166	196,310	181,556
1846	847,306	210,219	196,704
1847	654,186	240,670	205,009
1848	653,803	205,803	220,474
1849	653,458	246,095	246,299
1850	690,000	266,002	265,503

[1] Of these 3000 were negroes. [2] 1836 census.

It is important to fix the mind upon the figures in this list for the period 1841–43, because this is the period of Australia's first financial crisis. These figures, taken in conjunction with (*a*) price lists of merchandise,[1] (*b*) the return of coin for the years 1837–56,[2] and (*c*) the report of the Committee on immigration,[3] constitute our only original sources of information about the crisis. And this crisis is important because it represents in miniature the features of the larger crisis of 1893.

In Tasmania in 1822 the coinage of the island consisted of Spanish dollars and about £300 worth of British copper, while upwards of £10,000 of paper currency of denominations varying from 3*d.* to 2*s.* 6*d.* were issued by individuals, based solely on the capital possessed by the person issuing the currency. The Spanish dollar was valued at 5*s.*, but when in 1822 and 1823 the exchange turned against the Colony, its value fell to 4*s.* 2*d.* Then the Colonial Legislature at Sydney gave it a nominal value of 6*s.* 3*d.* by ordering that a circular piece should be struck out of the centre to be valued at 1*s.* 3*d.* The dollar with the piece struck out of it, the 'holey' dollar, was valued at 5*s.*, and the piece struck out, the dump as it was called, was valued at 1*s.* 3*d.* Hence the original coin valued at 5*s.* became two coins valued at 6*s.* 3*d.* Then when the exchanges turned against the Colony the 'holey' dollar was valued at 75% of 5*s.* and the dump at 25% of the 'holey' dollar. These coins, together with the £300 worth of British copper, comprised the coinage of the island.

In 1823 the Spanish dollar possessed various values. Its value to the troops when paying them was 4*s.* 8*d.*; in paying the Civil Service 4*s.*; when the Government made payments it was valued at 5*s.*; it was accepted by the Government in payment of dues at 4*s.* 2*d.* That is, in all, it had four values. During the same year, the

[1] C.O. 206/83, pages 448, 452; 206/84, page 438; 206/85.
[2] C.O. 206/78, page 1, and in later numbers.
[3] Not bound in with the Blue-books of Statistics; see Despatches.

Colonial dollar, or the 'holey' dollar, was valued at 3*s.* 9*d.* and the dump at 1*s.* 3*d.* There had also managed to get into circulation a few hundred English sovereigns and some copper coins, but it was not possible to set down all the coins in circulation. The Blue-book of Statistics for the year 1823, C.O. 206/45, records the fact that coins were being taken out of the country in payment for imports. This would not be unnatural, because the premium on Treasury Bills was from 20% to 25·25%. What was the cost of transporting dollar coins is not stated.

In 1824 the coinage situation became even more complicated. In addition to the values of the Spanish dollar, cited in the above paragraph, the courts of law decided to receive the dollar at 4*s.* in payment of fines and dues. Some Jamaica sovereigns were also imported; this would be associated with the developing rum trade, a commodity that became so important in the economy of the colonies that it ultimately became the coinage, and in N.S.W. for several years it had been the standard of value.

There is no record of what was the situation in Tasmania in 1825, but in 1826 the following were the values of the various coins: Spanish dollar 4*s.* 4*d.*, colonial dollar 3*s.* 3*d.*, the dump 1*s.* 1*d.* There were, in addition, guineas, sovereigns, silver and copper. In 1827 the officials attempted to set down the value of the coinage, and estimated it at £25,000. Some British coin had been imported, but the value is not stated; but the Military Chest had managed to secure £9302 of it. As the balance of trade was still against the Colony, there was every reason to think that coin was being exported.

In 1829 the Indian rupee was added to the many types of coin in existence. It was convertible at 1*s.* 9*d.* Since 1825 British coin to the extent of £37,610 had been imported into the Colony, but no one seemed able to estimate the quantity of coinage in circulation.

In 1834 an Act was passed regulating the value of the

various units in the coinage.[1] The Spanish dollar was 4*s.* 4*d.*, the colonial dollar was 3*s.* 3*d.*, the dump 1*s.* 1*d.*; and the dollars of the South American States were to be received at 4*s.* 4*d.* In this year a more careful record of the coinage in circulation was kept and returns were made to the Government; from these returns entries were made in the hand-written Blue-books of Statistics. From these entries we see that the coinage in the Military Chest, in the Colonial Treasury and in the five banks was £100,246, and £7754 was in circulation.[2] From now onwards regular returns were made. The following list gives the total quantity of coinage and that in the hands of the public, together with the size of the population.[3]

Date.	Coinage.	Coinage with the Public.	Population.
1835	£100,000	£7,757	40,283
1836	130,000	4,852	43,895
1837	128,000	6,246	42,944
1838	136,000	4,860	45,758
1839	189,530	6,000	45,734
1840	137,125	5,000	46,709
1841	99,272	5,000	Not recorded.
1842	158,382	5,000	50,216
1843	115,203	5,000	57,420
1844	164,697	5,000	57,420
1845	321,457	5,000	57,420
1846	352,554	5,000	57,420
1847	310,089	10,000	70,164
1848	248,095	10,000	70,164
1849	216,974	10,000	65,402
1850	249,000	10,000	70,164

In 1835 the Sicca rupee, which in 1829 was valued at 1*s.* 9*d.*, had risen in value to 2*s.*, where it remained until 1844. Other rupees began to appear on the scene in 1844 which were valued at 1*s.* 6*d.*, though no change

[1] No. 3, 7th George IV. [2] C.O. 284/57.
[3] C.O. 284/58–73.

appeared in the value of the Sicca rupee. Additional changes in the form of the dollar are also recorded. There was a half dollar, valued at 2*s.*, a quarter dollar, valued at 1*s.*, and an eighth dollar, valued at 6*d.* These coins were current with the ordinary British coins. In 1848, to add to the coinage hotch-potch, there appeared the French five-franc and one-franc pieces. The former was valued at 4*s.* and the latter at 1*s.* All of these coins were in circulation in 1850.

The condition of the coinage was a matter that must have worried people considerably, for we find no less than three Acts passed between 1822 and 1850, all dealing with the coinage. On September 2nd, 1835, an Act was passed to promote the circulation of the Sicca rupee. This was followed on August 13th, 1836, by an Act enabling the Government, for a limited period, to remedy deficiencies in the coinage; while on November 28th, 1838, an Act was passed to promote the circulation of the dollars of the several South American States and of Mexico.

We turn next to consider the paper currency. In 1822 there were approximately £10,000 of private notes in circulation, of denominations varying from 3*d.* to £1. In 1823 their value was £15,000. These notes were based on the private capital of the issuers, but there was a slight tendency for their place to be taken by the notes of the Bank of Van Diemen's Land, which was established in that year. In 1824 the Blue-book of Statistics for the year [1] records that private paper notes of 3*d.* and upwards were being put down by the issue of bank paper in return for Spanish dollars, issued to the extent of £28,000 for £7000 currency. What is meant by this statement it is difficult to say, but presumably it means that £28,000 in notes was issued against £7000 in currency, that for every £1 in Spanish dollars that were passed in £4 in notes were passed out.

In 1826 the notes of the Bank of Van Diemen's Land were £11,000. Presumably this means that they were

[1] C.O. 284/46.

in the possession of the bank, because in 1824 there were issued £28,000. There were also private notes. All notes were at par with the precious metals, and the issue of Bills of Exchange or of Promissory Notes for amounts under £1 was prohibited under Act of the Council of September 2nd, 1826. In 1827 the notes in the possession of the Bank of Van Diemen's Land were £13,000. In 1828 two new banks appeared, and the note issue was increased to £20,000. From that date, aided by the increase in the number of the banks, the quantity was steadily enlarged until 1840, when the volume was £75,562. It then fell steadily until 1845, when the volume was £51,969. After that date it rose and fell slightly until 1850, when the issue stood at £54,750. The complete figures are as follows :— [1]

Date.	Quantity.	Date.	Quantity.	Date.	Quantity.	Date.	Quantity.
1826	£11,000	1833	£34,029	1839	£73,294	1845	£51,969
1827	13,000	1834	42,370	1840	75,562	1846	57,357
1828	20,000	1835	46,860	1841	60,000	1847	63,803
1829	21,013	1836	54,116	1842	66,614	1848	56,253
1830	20,350	1837	51,618	1843	56,346	1849	56,111
1831	36,544	1838	54,557	1844	51,965	1850	54,750
1832	30,987						

South Australia had not a convict origin, and with the establishment of the Colony a bank was founded as a department of the company which founded the Colony. Unfortunately the records of the company have never been made public; they are at present either in the possession of the Union Bank of Australia or of the liquidator of the company. The records of the Colonial Office bearing upon the coinage and currency of the Province do not begin till the year 1842.[2] There were two banks in operation, the Bank of South Australia and the Bank of Australasia—a branch of the bank established

[1] C.O. 284/48–73. [2] C.O. 12/17–23.

in London, but whose colonial head office was in Sydney. The population of the Province in 1840 was 14,630, and its coinage, with a few exceptions, was British. There were notes of the banks in circulation. The following was the amount of the coinage in circulation, together with the population [1] :—

Date.	Coinage.	Coinage with the Public.	Population.
1840	£22,504	£1,000	14,630
1841	24,887	1,000	15,530
1842	24,400	1,000	15,527
1843	26,000	1,000	18,796
1844	33,500	1,000	18,999
1845	34,100	2,000	22,460
1846	188,659	10,000	25,893
1847	140,046	10,000	31,153
1848	125,000	10,000	38,666
1849	166,173	15,000	52,904
1850	170,000	20,000	63,700

It is difficult to resist the temptation to call attention to the increase in the quantity after 1846. The Blue-books explain this sudden rise by the opening of new mines in the Province.

A paper currency seems to have come into being in the very early days of the Province. In 1840 there were notes in existence to the value of £19,640. These were of sterling denomination, and were convertible into British money on demand. Of these notes £16,840 was represented by the notes of the Bank of South Australia and £2800 by those of the Bank of Australasia. The returns for the year 1841 state [2] : "Actual paper currency in circulation is confined to the notes of the banks alone; but cheques are in great use, the active circulation of which has much the effect of an addition to the currency, but to what amount it is scarcely possible to form an estimate."

[1] C.O. 17/12–23. [2] C.O. 17/13.

The statistics of the note circulation are :—

Date.	Amount.	Date.	Amount.	Date.	Amount.
1840	£19,640	1844	£11,000	1848	£48,371
1841	14,054 [1]	1845	15,000	1849	53,372
1842	14,000	1846	25,047	1850	Not stated.
1843	11,000	1847	34,985	1851	70,000

Note.—I have included the figures for 1851 because those for 1850 are missing; though 1851 falls outside the period that is being discussed, it indicates that the expansion of the note issue, set in motion in 1845, continued beyond the year 1850.

It is not proposed to go very deeply into a discussion of the coinage and currency of Western Australia. There was only one bank in existence, the Bank of Western Australia. It was founded in 1837, but in 1841 it was closed by vote of a small majority of the shareholders in favour of the branch of the Bank of Australasia. The outvoted minority opened a new bank, which was called the Western Australian Bank, and by 1846 it had driven the Bank of Australasia to close its doors.

The statistics of the bank with reference to its currency and specie are as follows [2] :—

Date.	Circulation.	Specie.
1837	£1412	£3575
1838	2678	5368
1839	2315	2555
1840	3754	3405
1841	4355	2688
1848	3093	7815
1849		
1850	2340	7823

The Course of Exchange in the Various States.

The organisation of exchange on London does not seem to have been properly brought about in New

[1] *Year Book of Australia*, 1885. [2] *Ibid.*

South Wales till 1840. That is the first year in which the records of the Colonial Office show that more than one bank was prepared to trade in foreign exchanges. The Bank of Australasia is recorded as having done some trade in bills of exchange, but, curiously enough, the Bank of New South Wales is not recorded in the Blue-books as having indulged in foreign-exchange business till after 1840. In these early days, however, the normal way of making payments in London was for the Lords Commissioners of His Majesty's Treasury to authorise a person in New South Wales, called the Commissary, to draw bills on them. These were then sold over the counter of the Commissary's office for a certain amount, sometimes at par or at a discount, but generally at a premium. Later on they were sold by tender; but whether sold over the counter or by tender, they appear to have been the main method for remitting money to London till about 1840, when the names of the banks began to figure in exchange transactions. The following is a list of the average rates at which Treasury Bills were sold in Sydney :—

Date.	Av. % Premium.	Date.	Av. % Premium.	Date.	Av. % Premium.
1822	2½ to 9	1829	1	1835	Par after
1823	19 1/16	1830	Missing.	1836	Feb. 28th,
1824	14½	1831	1	1837	1835.
1825	Missing.	1832	1	1838	1½
1826	3	1833	1	1839	1½ to 6⅛
1827	3	1834	1	1840	1⅓ to 5
1828	1				

But it must be remembered that all the transactions were in dollars. By 1826 there must have been some exchange business done, for it is recorded, " Few, if any, bills are negotiated." [1] However, in 1832 we are informed that there were no rates for foreign bills. In 1837 the Bank of Australasia began to allow 1½% discount on bills drawn by the managing director in the Colonies on the

[1] C.O. 206/66.

Directors in London, and this apparently continued until 1839, when the rate changed to from 1½% to 5% premium, the Union Bank of Australia, Ltd., charging 2½% to 5½% premium. From the year 1840 till 1850 the business in Treasury Bills and in drafts appears to have been fairly brisk, the following being the upper and lower limits of the quotations for the periods concerned :—

Date.	Bank Draft.	Treasury Bills.
1840	Par to 5% pr.	⅛ to 5% pr.
1841	1 to 1½% pr.	Par to 5% pr.
1842	Par to 15% pr.	Par to 4% pr.
1843	¾ to 4% pr.	½ to 4% pr.
1844	6% disc. to 1½% disc.	1½% disc.
1845	6% disc. to par.	1½% disc. to 1% pr.
1846	2½ to 1½% disc.	Par.
1847	2 to 4% pr.	Par to 3% pr.
1848	1 to 3% pr.	Par to 5% pr.
1849	3% pr.	1 to 3% pr.
1850	3% disc. to 2% pr.	1 to 3% pr.

There is no mention in the Colonial Office records of the discounting of traders' bills within the colony until 1832, when it is stated that they were negotiated at 10% discount. Though there is no further record of discounting bills till 1836, presumably it went on. In that year the rate was still 10% discount. This was the average rate of discount, but more was often given under agreement. Both the interest and the discount rates remained at 10% until 1842, although the courts had fixed the rate at 8% unless there was a previous arrangement between the folk concerned. In 1842 the discount rate fell to 8%, though the private rate of interest was anything from 10% to 20%. From 1842 the rates of discount were competitive, different banks paying different rates from 6% to 8% discount.

In addition to the rates charged by the banks and by the Commissary of the Treasury, there was another rate, different from both of these, for private individuals. The first mention of this is in 1831, when the rate was at

par. The next year the individual rate varied from par to 5% discount, at which level it remained till 1834, when it was from 2½% to 5% discount. This rate continued until 1837, when it varied from 2½% to 8% discount. In 1839 the rate varied from 2½% discount to 2½% premium, and in 1840 from 5% discount to 3½% premium. In 1844 the rate was at a discount of from 6% to 10%, while in 1845 it was quoted with that of drafts, and not separately, at from 1½% to 7½% discount. It still continued to be quoted at anything from 2½% premium to 2½% discount until 1850.

It remains to consider the rate on inter-state and inter-colonial bills. It was not quoted at all in the early days. It is first mentioned in 1835, though no figures are given. In 1842 a rate at 2½% discount is quoted on Tasmania and 5% discount on South Australia. In 1844 the rate varied from 1% to 7½% discount. From then onwards till 1850 foreign bills, including inter-state and inter-colonial ones, were quoted at rates varying from par to 7½% discount. In 1850, however, instead of quoting a general rate, different rates were quoted for British India, Van Diemen's Land, South Australia and New Zealand, varying from 1% to 5% discount.

There does not appear to have been any working agreement among the banks for quoting similar rates for foreign exchange. For example, we find in 1850 the Bank of New South Wales and the Bank of Australasia quoting different rates for British India; the former at from 8% to 10% discount, the latter from par to 5% discount.

The course of the exchanges in Tasmania falls into three phases :—

(1) That from 1822 to 1836.
(2) That from 1836 to 1845.
(3) That from 1845 to 1850.

Of the second phase there is nothing said in the Blue-books, but of the first and third we have ample information.

Up to 1828 all exchange seems to have been accomplished by the purchase of bills, drawn by the Commissory on His Majesty's Lords of the Treasury in exchange for coin, mainly for British silver. The period of these Treasury Bills was for 90 days. The rates were at a very high premium—up to September 1822 at 5%, then after that date from 20% to 27%. In 1823 the rate varied from 18% to 27·25%, and in 1824 from 15% to 16·1%. There is no information for the year 1825, and in 1826 the rate had fallen, and was from 3% to 6%. In 1827 the Lords of His Majesty's Treasury are stated to have fixed the rate at 3%,[1] but next year the rate was down to 1½% in exchange for British silver. This year, 1828, is the first year in which there is any reference to a private market for bills. In 1824 it was stated in the Blue-books that the rate on private bills was in proportion to the credit of the drawer, but in 1828 we are told that the market rate varied from 2½% premium to 3% premium. It was in this year that two new banks were established, and their appearance, perhaps, was not unconnected with the development of a market rate for bills. From now onwards to 1836 the Blue-books refer to both a rate for Treasury Bills in return for British silver and gold and to a market rate for bills, the rate for the latter being mainly above the former. The following are the actual rates for the period 1828–36 :—

	1828.	1829.	1830.	1831.	1832.
Treasury Bill rate .	1½%	1½%	1½%	1½%	1½%
Market rate . .	2½ to 3	1½	2½	1½	4

	1833.	1834.	1835.	1836.
Treasury Bill rate .	1½%	1½%	1½%	1½%
Market rate . .	1½	2½	1½	1½

In 1849 the Lords of Her Majesty's Treasury changed their policy with reference to the method of selling Treasury Bills. In that year they ordered that Treasury Bills should be sold by public tender. This procedure was followed for the future. In 1850 the records show

[1] C.O. 284/49.

that in the private-bill market bills of less that 100 days were discounted at a premium of 8% ; if the duration of the bill was for more than 100 days the premium was 10%. The rate on overdue bills was 10% and the over-draft rate was 10%.

In South Australia the story of the course of exchange is rather complicated. In 1840 we are informed: " The course of exchange is very difficult to reduce to an average. The Bank of South Australia states that it ranges from 1½% to 4% premium on bills on London and 3% to 5% on neighbouring colonies. But this, it is imagined, is the rate which the bank commands for its own drafts. At the very time that it received these rates of premium, it might purchase private bills at a discount. It is conceived that the course of exchange would be against the colony about 2%." [1] Again during the next year we are told: " Any general average of exchange is difficult to determine. While banks are receiving premiums of 3%, private individuals would be selling at a discount of 3% ; probably the Government sold drafts on Her Majesty's Treasury at a discount. In general, want of an adequate export trade made the exchange against the Colony—probably 1%." [2]

From this quotation it would appear, if the Government officials were accurately informed, that the banks were selling their own drafts or the bills of private firms at a premium of 3%, while at the same time the exports of the colony were below the imports. This was the position in regard to international trade. There was also the inter-colonial trade with an inter-colonial exchange rate. In 1840 this rate varied from 3% to 5% premium —that is, it was higher than the rate on London, and in the following year it was approximately the same. For the years 1840, 1841, 1842 the two banks in existence, the Bank of South Australia and the Bank of Australasia, quoted different rates on London and similar rates on the Colonies. After 1842 only one rate appears in the returns, but in 1847, though only one rate is quoted for

[1] C.O. 17/12. [2] C.O. 17/12.

London, different rates are quoted for the Colonies. It is difficult to make a general statement about the rise and fall in the rates of exchange, but the following table represents an attempt to present the variations in an orderly form. The year 1840 is omitted, because for that year there is only one bank to which reference is made.

Date.	Name of Bank.	Colonies.	London.			
			Jan. to March.	April to June.	July to Sept.	Oct. to Dec.
1841	South Aust.	3% pr.	Par.	2% pr.	2⅛% pr.	2% pr.
	Australasia.	3% pr.	3% pr.	1⅞% pr.	3% pr.	2⅛% pr.
1842	South Aust.	3% pr.	1⅛% pr.	1⅛% pr.	1⅛% pr.	1⅛% pr.
	Australasia.	3% pr.	1⅜% pr.	Par.	Par.	Par.
1843	South Aust. Australasia.	3% pr.	Par.	2% pr.	2% pr.	2% pr.
1844	South Aust. Australasia.	3% pr.	2% pr.	2% pr.	2% pr.	2% pr.
1845	South Aust.	2½% pr. to Mar.; after that 1% pr.	2% pr.	2% pr.	2% pr.	2% pr.
	Australasia.					
1846	South Aust.	1 qr. par. 2 qr. par to 1% pr.	Par.	Par.	Par.	Par.
	Australasia.	3 qr. par to 1% pr. 4 qr. par.				
1847	South Aust.	Jan. to Feb. 1⅛%; Feb. to Dec. 3% pr.	Par to 2% pr.	3% pr.	3% pr.	2% pr.
	Australasia.	2% pr.				
1848	South Aust.	Jan. to June 3% pr.; June to Dec. 2% pr.	Jan. to Oct. 2% pr.; Oct. to Dec. 4% pr.	—	—	—
	Australasia.	Jan. to June 2%; June to Dec. 1%		—	—	—
1849	South Aust.	2% pr.	2% pr.	4% pr.	2% pr.[1]	2%
	Australasia.	1% pr.	1% pr.	4% pr.	2% pr.[1]	3% pr.

		Colonies.			London.	
		Jan. 1 to April 2.	April 2 to July 16.	July 16 to Dec. 3.	Jan. to April.	April to Dec.
1850	South Aust.	3% pr.	2% pr.	1% pr.	2% pr.	1⅛% pr.
	Australasia.	3% pr.	2% pr.	1% pr.	2% pr.	1⅛% pr.
	Union.	3% pr.	2% pr.	1% pr.	2% pr.	1⅛% pr.

[1] May to August.

In the period to which the above table refers there are two things which can, with advantage, be observed.

First, there is an apparent tendency for the colonial exchange rates to be fairly simple and fairly uniform, except for the years 1847, 1848 and 1849. They remain at 3% premium from 1841 to 1844 (inclusive), then comes a year in which they fall, but vary from 2½% to 1%; then in 1846 they range from par to 1% premium, and from then onwards they have more or less half-yearly changes, being always from 1% to 3% premium. Second, the London exchanges appear to change every three months, with the exception of the year 1848, when they change once. In 1841 and 1842 the rates preserved by the two banks were different, varying from ¼ to 3% premium. From then onwards for a period of six years their rates were similar. After that year the similarity disappears, but only for one year. The arrival of a new bank makes little difference to the rates. Were we to follow the story past the middle of the century we should find some considerable changes in the exchange situation, with the rate as low as 7% discount and as many as six changes in the year; colonial rates, too, change more rapidly after 1850, but the range of their changes is not so wide as those of the London exchange.

We have now the general position of the coinage, currency and the course of exchange before us, and we can go forward and consider some of the different aspects of the development of banking. These can perhaps best be discussed under the following headings:—

(*a*) Rates of interest.
(*b*) Payment of interest on current account.
(*c*) Forms of banking structure.
(*d*) Capital raised and its increase.
(*e*) Branch development.
(*f*) Dividends.
(*g*) Miscellaneous.

(*a*) In New South Wales we are informed that the legal maximum rate of interest was 8%.[1] This informa-

[1] C.O. 206/75.

tion is reinforced in the following year by the additional information that 8% was the rate allowed by the Courts, provided no previous agreement had been made for a higher rate.[1] In 1841 the legislature again stepped in and passed a law allowing 12% interest on overdue bills.[2] In 1844 the first of these Acts and section 23 of the second were repealed. In lieu thereof another Act was passed substituting fixing the maximum rate of interest to be taken under any contract at 8% after the passage of the Act.[3] However, this Act did not come into operation at once, because it was reserved for Royal Approval. When the Bill came up for consideration in London, Royal Approval was withheld.

(*b*) It has been considered by some banking authorities that the Oriental Banking Corporation was the first institution to introduce the principle of paying interest on current account into Australia. That bank was established in 1851. It appears that the custom developed somewhat earlier than 1851. In 1835 there is a reference to the fact that the Commercial Banking Co. of Sydney worked on the Scottish principle of allowing 3% on all deposits for three months, while the Bank of Australasia allowed 5% under similar conditions.[4] In 1838 the returns show that the four banks in New South Wales were paying 4% on current account and 2½% on public monies, while the Bank of Australasia allowed 7% on deposit receipts at ten days sight. The Savings Bank was allowing 10% on deposits, though only 5% was guaranteed by Act of Parliament. In 1839 the Union Bank, which had not up to this date paid interest on current account, fell from grace and paid the same rates as the Bank of Australasia; and both of them reduced their rate on fixed deposits from 7% to 5%. In 1844 there is no reference at all to the rates paid on current account or on fixed deposits, but in 1845 the records inform us that the banks did not allow interest on deposits. Between 1839 and 1844 many things had

[1] 5 William IV, No. 10.
[2] 5 Victoria, No. 9.
[3] Act passed December 21st, 1844.
[4] C.O. 206/75, page 174.

taken place. In 1840 the rates were: Government deposits 2½%, current accounts 4%, fixed deposits for 10 days 5%, fixed deposits for three months 7%. These rates were continued for 1841, but in 1842 came changes. In that year five of the banks paid 4% interest on current account, four of them paid 5% on ten-day deposits and 7% on three-month deposits; the Commercial Banking Co. of Sydney paid 3% on ten-day deposits and 5% on three-month deposits; the Bank of New South Wales paid only 4% on current account, and the Bank of Sydney, which was getting into deep water, paid nothing at all. The Savings Bank paid 10% and re-loaned money on mortgage. In 1843 rates changed again. The Bank of Australasia and the Bank of New South Wales paid 3% on current account, the former paid 5% for fixed deposits of three months, the Union Bank paid 2% and the Commercial Banking Co. of Sydney 5%. In June 1844 the banks, with the exception of the Savings Bank, discontinued the payment of interest altogether. They were in a position to do so, because two banks had failed, the colony had passed through a crisis and no one entertained any idea of economic development. If money was not to be deposited with the banks, there was no other outlet for it. Hence from June 1844 until the arrival of the Oriental Banking Corporation in 1851 no deposit rates at all were paid by the banks.

The importance of this detail with reference to the payment of interest on current account will be realised when it is understood that the Australian Associated Banks are to-day one of the most closely organised rings in the world. One outstanding feature of this close organisation is the harmony which exists in the types of rates for discounts and over-drafts, together with a united policy of opposition to the idea of granting interest on current account. We know that this was not always so, and that in the early days all the banks paid interest on current account and used this payment as an instrument for attracting deposits. This was particularly true of the years 1835 to 1841, when competition became very

severe owing to the number of banks, nearly all of which had just begun business and were anxious to establish themselves.

(*c*) If we bear in mind that it was not till the year 1862 that the modern limited liability company came into existence, we shall realise how restricted were the forms of structure available to Australian bankers and their shareholders. In the available records there is no reference to the one-man bank which is so common in English or European banking. In going through the records of the banks established in early days, we find that three forms of organisation were used: viz. the partnership, the company with an issue of shares, and the company with an issue of promissory notes in lieu of shares. The Bank of New South Wales began as a partnership with 200 partners, and the Commercial Banking Co. of Sydney was similarly organised. The former found the partnership a very unwieldy form of organisation quite early in its history, and both it and the Commercial Banking Co. of Sydney converted themselves into companies, the Bank of New South Wales in 1828 and the Commercial Banking Co. of Sydney in 1848. With the exception of the Royal Bank, the Bank of South Australia and the Bank of Australasia, all the banks were incorporated under Acts of Parliament, with Deeds of Settlement which imposed some form of liability on the shareholder, and in some cases, so as to protect the shareholder, it was stipulated that if a certain proportion of the capital was lost, the affairs of the bank were to be wound up. The promoters of the Royal Bank, instead of issuing shares, drew promissory notes on its 150 shareholders, and each promissory note had attached to it a coupon entitling the holder to a half-yearly payment of interest at some specified rate. This, it would appear, is quite an unusual form of organisation, not to be found elsewhere. The Bank of South Australia began as a department of the company that founded the Colony, the South Australian Company; however, shares were issued not only for the company generally, but also for the

banking department in particular; and in 1840 it was deemed advisable to separate the banking department from the company. The Bank of Australasia was founded under Royal Charter.

(*d*) During the period 1817–50 the eighteen banks which began business operations in Australia all had to raise capital. The bulk of this came from England, though a small proportion of it was raised in Australia. Some of the banks were content with one issue of capital, others required a second, while those which converted themselves from partnerships into companies went to the market three times. It is very difficult to produce accurate figures for this period, mainly because of lack of sources of information. There are three sources to which we can go, but these do not give us complete information. These sources are the reports of the banks themselves, the *Bankers' Almanac* and the 1885 edition of the *Year Book of Australia*. The reports of the banks, where they are available, give us only the amounts of nominal capital, and not the amounts of the capital that has been paid up; the *Bankers' Almanac* did not begin as a publication until 1844, and for several years it included in its statistics only the figures of Australian banks which had offices in London; the *Year Book of Australia* was a private publication. From this last-named we see that in 1841 the paid-up capital of seven of the Australian banks was £1,790,297.[1] The details of this are as follows:—

The Bank of New South Wales	£183,992
The Bank of Australia	202,390
The Commercial Banking Co. of Sydney	238,260
The Bank of Australasia	600,000
The Union Bank of Australia	373,337
The Bank of Sydney	143,846
The Bank of Port Phillip	48,472

This list omits five of the smaller banks, whose capital could not have been very much. By 1850 the total of

[1] P. 666.

paid-up capital for six of the larger banks was £2,850,000,[1] of which the details are as follows:—

The Bank of Australasia	£900,000
The Royal Bank of Australia	130,000
The South Australian Banking Co.	180,000
The Union Bank of Australia	820,000
The Bank of New South Wales	500,000
The Commercial Banking Co. of Sydney	320,000

This list omits five of the smaller banks, but these figures are an indication of the amount of capital that had flowed into Australia at the end of the first period of her banking history. We may assume that by 1840 there was about £2,000,000 capital invested in the banks, and that by 1850 the amount had risen to about £3,000,000.

(*e*) Australia has followed along English rather than American lines in adopting a system of branch banking rather than separate banks. The general policy is to begin with an agency, open perhaps one or two days a week, till the volume of business is sufficient to justify the conversion of the agency into a branch. Then, if for any reason business falls off in the area in which the branch exists, the branch is either closed or is converted to the status of an agency once again. As we shall see later on, branch banking has its disadvantages as well as its advantages, and one of its disadvantages in Australia has been that its existence has led to intense competition, resulting in over-trading. On the other hand, a good feature of branch banking is that it aids the process of amalgamation by tempting larger banks to take over smaller ones by the very fact that an opportunity is offered of opening up easily in a new area or state, instead of having to develop a new business gradually. For example, the Bank of South Australia had built up a promising branch business in South Australia when the Union Bank, with either no or very few branches in the State, at once came into prominence by taking over the whole of the business of the Bank of South Australia, thereby at once over-

[1] P. 666.

reaching other banks which had been at work for years trying to develop in competition with the Bank of South Australia. This is the way in which the National Bank of Australasia, Ltd., entered Queensland in 1918, and the Bank of New South Wales became the foremost bank in Western Australia by taking over in 1927 the Bank of Western Australia.

Of the eighteen banks established in Australia during the period 1817–50, only four established branches. These were the Bank of Australasia, the Commercial Banking Co. of Sydney, the Union Bank of Australia, Ltd., and the Bank of New South Wales. The following are the statistics of branch development for the period that we are discussing:—

Year.	Branches.	Year.	Branches.	Year.	Branches.
1838	2	1843	9	1847	7
1839	6	1844	5	1848	7
1840	No record.	1845	5	1849	7
1841	9	1846	7	1850	8
1842	9				

In the main the tendency was to open branches in what came afterwards to be the capital towns of the various states. At the present moment there are more than 4000 branches of the banks in existence, and this will give some indication of the growth of the system as a whole, when it is realised that in 1850 there were only eight branches in existence. The only bank to possess a branch in London at this time was the Bank of New South Wales, which opened one in 1848. The majority of the banks had their head offices in London.

(*f*) The policy of paying dividends in Australian banking practice has passed through two stages. In the first there was a small turnover and a large profit out of which the dividends could be paid; in the second stage a large turnover and small dividends. This was not, of course, a conscious policy—it merely came about with the development of the banking system. The date at which the change from one stage to another took place may be

set down conveniently as 1893. The first reference to it by a bank chairman was in 1898.

Turning to the actual dividends paid, we find that the Bank of New South Wales did particularly well in its earlier years. From 1818 to 1821 it paid dividends at the rate of 12%. In 1822 it paid 15%, while for the whole period 1818–50 it paid dividends ranging from 10% to 20%, with an average payment of 17½%.[1] During the same period the total amount of dividends paid was £340,000.[2] Apart from the Bank of New South Wales and the Western Australian Bank, which also paid good dividends, the other banks do not appear to have done particularly well. The Bank of Australasia seems to have paid 8% until the crisis of 1841–42–43, when the dividends were suspended, and it was not till 1849 that they were resumed. The Bank of South Australia paid dividends varying from 4% to 6%, though no dividend was paid in 1844. The Union Bank of Australia, Ltd., paid approximately 6%, while the Commercial Banking Co. of Sydney seems to have done better, paying dividends varying from 7% to 13%. The Western Australian Bank appears to have done better than any of the others, for from 1841 to 1846 it paid 14%, and from 1846 to 1850 it paid 12%. It must be remembered that it had very little competition to meet, and the effects of the 1841–42–43 crisis were confined to the eastern portions of the continent, and did not reach Western Australia.

(*g*) During the period under discussion there were five failures of banks and three amalgamations. The names of the institutions concerned are given in Appendix I.

[1] Baxter, "Banking in Australia from a London Official's Point of View."

[2] *Daily Telegraph*, N.S.W., July 23rd, 1910.

CHAPTER III

THE SECOND PERIOD OF AUSTRALIAN BANKING, 1850 TO 1893

We have already seen that during the first period of Australian banking eighteen banks were established. But five of them failed and three of them underwent processes of amalgamation. We also noticed that those banks which had adopted a partnership form of organisation had given it up. Finally we saw that approximately £3,000,000 in banking capital had been subscribed for the Australian banks.

There were several factors that influenced the development of Australian banking during this second period. These factors were:—

(*a*) The discovery of gold.
(*b*) The rise of secondary industries.
(*c*) The formation and development of new States.
(*d*) Land speculation.
(*e*) Events such as the Franco-Prussian War and the Baring crisis in 1890.

In 1851 gold was discovered in Victoria and New South Wales. This acted as a magnet and drew from all quarters of the globe people of all ranks of society. It also tended to denude of population those areas of Australia where no gold was to be found. For example, in South Australia farmers left their farms, shopkeepers their shops and Civil Servants left their duties to such an extent that the value of almost everything but wages fell.

The activity occasioned by the gold discoveries was

very considerable for about ten years. As an illustration of this we may look at the imports into Victoria [1]:—

1851	£1,000,000	1854	£17,000,000
1852	4,000,000	1855	12,000,000
1853	15,000,000		

At the same time the banking figures for the three banks in Victoria showed the following increases [2]:—

	1851.	1852.
Average total deposits	£762,710	£2,445,000
Joint advances	680,633	945,000
Coin and Bullion	297,504	1,310,000
Note issue	140,000	803,000

By 1860 activity began to slacken. Everyone did not find gold, and some of the gold mines began to show signs of giving out. This was particularly the case in Victoria. The problem was what to do with the unemployed diggers. In the main they found their way to the existing towns or else set up new ones, and in their new homes they returned to their old trades.

It was in this way that Australia's secondary industries began. Men from overseas, mainly artisans, ceased living as diggers when the gold gave out and settled down as tradesmen in and about existing towns. The existence of these tradesmen created other needs, and soon there was definite evidence of the growth and development of secondary industries. Then the men-folk either married or sent for their wives and families from overseas. There was thus a considerable growth in the population centred round the capital cities or the areas of most intensive production. This concentration of population in areas that were separated by long distances led to the establishment of States, and both the increased population and the new states set up a demand for land and buildings, culminating in the huge land boom, which began soon after 1870 (in its initial stages), and reached its height in 1889.

[1] H. Gyles Turner, General Manager of the Commercial Bank of Australasia, in the *A.I. and B.R.*, May 16th, 1889.
[2] *Idem, ibid.*

New South Wales was the original colony, with Port Phillip and Moreton Bay as offshoots. Tasmania had been founded in 1825 and Western Australia in 1829, while South Australia was established in 1836. The middle of the century saw the establishment of Victoria, and in 1859 Queensland was founded. The establishment of these two latter States was followed by considerable borrowings for public works, and in this loan activity the banks played an important part.

Overseas there were two factors at work to influence economic development in Australia. The Franco-Prussian War increased the demand for Australian products, particularly wool, just as the Napoleonic Wars had done in 1789. The other factor was the financial crisis in the Argentine, followed by the collapse of the House of Baring in 1890. With this should be coupled Goschen's conversion of the British National Debt, which had a considerable influence upon Australian banking policy. The feeling of apprehension created by the situation in the Argentine and the collapse of the Barings influenced the investment situation in Australia just at the time when it had got out of hand, and added further apprehension to an already ugly situation, which culminated in the financial crisis of 1893.

Hence in Australia during the period which we are discussing we pass from healthy development to unhealthy boom, and all in a period of approximately forty years. This is very much what happened in 1817–50, though during the second period everything was on a larger scale.

We shall now look at this story in much closer detail.

From 1850 to 1888 no fewer than thirty-three banks were established, and, in addition, upwards of sixty land mortgage and building societies, many of which performed quasi-banking functions. These banks were founded in three groups:—

(*a*) From 1851 to 1858 . . . eight banks.
(*b*) From 1863 to 1873 . . . twelve banks.
(*c*) From 1877 to 1888 . . . thirteen banks.

The first group is generally spoken of as the "gold" group, because, with one exception, all the banks were established during the period of the gold rushes for the specific purpose of financing them. The banks in this group comprise:—

The Oriental Banking Corporation.
The Bank of Victoria.
The English, Scottish and Australian Bank.
The London Chartered Bank of Australia.
The Australian Joint Stock Bank.
The Bank of Tasmania.
The Colonial Bank of Australasia.
The National Bank of Australasia.

There was also the French bank, the Comptoir d'Escompte de Paris, which established two branches in Australia about the middle of the century, but as these two branches had no material influence upon the Australian banking situation, they have been omitted.

The Oriental Banking Corporation was not really an Australian bank, but it had several branches in Australia, particularly in New South Wales, so that its name has been retained upon the list.

The Bank of Victoria began with a nominal capital of £1,000,000 in 20,000 shares of £50 each, £25 being paid up. It was an excellent bank, being one of the few that survived the 1893 crisis. It was taken over by the Commercial Banking Co. of Sydney in 1927 as a going concern with 120 branches.

The English, Scottish and Australian Bank was established with a capital of £500,000. After a troubled youth and suspension during the 1893 crisis, it has become one of the "big six" of the Australian banks. It has absorbed several banks, and in 1928 it had 412 branches.

The London Chartered Bank of Australia began with a capital of £800,000. Baxter [1] says that it was never regarded as a successful bank, because its capital was too small for its business. It suspended payment during

[1] "Banking in Australia from a London Official's Point of View."

the 1893 crisis, but re-opened. It was absorbed by the English, Scottish and Australian Bank in 1921.

The capital of the Australian Joint Stock Bank was £250,000. It closed its doors in 1893, but opened them again later. It could never shake off the load of its liabilities after that crisis, and in 1909 it was sold to the Australian Bank of Commerce, Ltd., which had been specially formed to take over the business of the dying bank.

The Bank of Tasmania was founded in 1853 and was re-formed in 1885 as the National Bank of Tasmania. Under this name it was absorbed by the Commercial Bank of Australia in 1917.

The Colonial Bank was founded in 1856. According to H. Gyles Turner,[1] it was established in the Roman Catholic and Irish interest. It had a nominal capital of £1,000,000, and after suspending payment during the 1893 crisis and reconstructing, it was taken over in 1918 by the National Bank of Australasia, Ltd.

The National Bank of Australasia, Ltd., began business in 1858 with a nominal capital of £1,000,000. It met with much opposition from the existing banks, and to these troubles were added internal differences amongst the directors. The bank suspended payment in 1893, but on being reconstructed it quickly shook itself free of it liabilities. It has absorbed two banks, and possessed in 1928 325 branches. It is one of the biggest banks in Australia, and is essentially an Australian bank, both in regard to its capital and the location of its head office.

From an examination of the above brief descriptions of these banks it can be seen that all the "gold" banks justified their foundation. Two of them are numbered among the "big six," and the other four [2] conducted profitable businesses till the close of the War, when they were absorbed by stronger institutions.

From 1858 to 1863 there was a lull in the process of bank formation. Then between the years 1863 and

[1] *A.I. and B.R.*, May 16th, 1889.

[2] Two of the eight banks were not "gold" banks, viz. the Oriental Banking Corporation and the Bank of Tasmania.

1873 twelve banks were founded. The names of these banks are :—

The City Bank of Sydney.
The Bank of Queensland, Ltd.
The Land Mortgage Bank of Victoria.
The Bank of Adelaide.
The Ballarat Banking Co., Ltd.
The Melbourne Banking Co.
The Commercial Bank of Australia, Ltd.
The Mercantile Bank of Sydney.
The Queensland National Bank, Ltd.
The Provincial and Suburban Bank, Ltd.
The City of Melbourne Bank, Ltd.
The Australian and European Bank, Ltd.

There were various reasons why these banks were established, but probably the reasons set out in the prospectus of the City Bank of Sydney were as sound as any. These reasons were :—

(*a*) Both the imports and the exports of the colony had increased considerably, indicating the development of increased business.
(*b*) From £3,000,000 to £4,000,000 was lying idle in Sydney alone.
(*c*) The high premiums on bank shares deterred capitalists and prevented them from investing their money, whereas shares sold at par would not do this.

To these reasons we might add two others, viz. :—

(*d*) The passing of the Limited Liability Act of 1862, which restricted the amount of money for which a shareholder was liable to the nominal value of his share. Under this Act investors would be more likely to risk their money than previously, since it was known precisely how much money each person stood to lose.
(*e*) The success of the " gold " banks.

The City Bank of Sydney began with a capital of £200,000 with power to increase it to £500,000 in shares of £10 paid up to £5. The fortunes of the bank mounted steadily till 1890. Then they ran downhill till 1905, when a slight recovery set in. In 1918 the bank was absorbed by the Australian Bank of Commerce. It did not suspend operations during the 1893 crisis, though it was badly shaken by it. This institution, with the exception of the Ballarat Banking Co., Ltd., and the Bank of Bathurst, and those very small ones which existed only for a few years, was the only Australian bank which did not possess a London office.

The Bank of Queensland is one of the short-lived banks of Australia, and it is not to be confused with the Bank of Queensland, Ltd., which was founded in 1917. The bank under discussion was the first bank in Australia to have its head office in Queensland. It was established in 1863, but when in 1866 Queensland experienced both a financial crisis and a drought, the bank collapsed, dragging with it the investment companies which had entered into business with the foundation of the State in 1860.

The Land Mortgage Bank of Victoria was established in 1864. It was re-incorporated in 1886, when its paid-up capital was £200,000. It has always been a small institution, but was still in existence after the War.

The Bank of Adelaide began in 1865, with a capital of £250,000, of which £75,000 was paid up. The activities of the bank are confined to the State of South Australia. It is an extraordinarily strong bank, and has successfully resisted all attempts to incorporate it in other banks. It was one of the banks that did not suspend payment in 1893. The success of the bank is closely related to the wheat industry of the State; when the use of phosphate was introduced as a fertiliser the results were at once noticed in the assets of the bank.

The Ballarat Banking Co., Ltd., is only a small bank, whose activities are confined to the town of Ballarat in Victoria and the district round about. Nevertheless, it has managed to maintain a separate existence for a period

of approximately sixty years. It was established in 1865.

Very little is known of the Melbourne Banking Company. It was amalgamated with the City of Melbourne Bank in 1880.

The Commercial Bank of Australia, Ltd., is an Australian bank with an Australian head office. It began operations in 1866 with a nominal capital of £500,000, with power to increase it to £1,000,000. It has absorbed four banks in its time. It suspended payment during the 1893 crisis, and it was twenty-nine years before it was free of its consequent liabilities. In 1928 it possessed 351 branches.

The Mercantile Bank of Sydney is not to be confused with the Mercantile Bank of Australia, which began business eight years later, with the title of the Economic Bank. It was originally intended to establish a branch of the Agra and Masterman Bank in Sydney, but the bank was never opened. The nucleus of the business that had been collected was then transferred to the Mercantile Bank of Sydney, which was begun as a private institution, with a capital of £100,000. In 1873 the bank was incorporated, with a capital of £120,000 in £4 shares, 16*s.* of which was paid up. In 1891 the bank was taken over by the Commercial Bank of Australia, Ltd. It was then discovered that the capital of the bank was too small to justify an issue of shares.

The Queensland National Bank, Ltd., belongs to that group of banks whose activities are restricted to one area, generally to one state. After the failure of the Bank of Queensland in 1866, this was the only bank in Queensland with its head office in that State until the year 1885, when the Royal Bank of Queensland was established. The Queensland National Bank, Ltd., is an important one, and it has an interesting history, particularly during the stormy years which followed its reconstruction after 1893. It was not till 1918 that the effects of that crisis and the succeeding stormy years disappeared. Since this date the bank has made substantial progress.

The Provincial and Suburban Bank, Ltd., was a very small bank, established in 1872. It failed in 1879. Very little is known about its activities.

The City of Melbourne Bank, Ltd., is what a prominent Australian banker[1] has referred to as a "fungoid" bank. In 1883 it absorbed the Melbourne Banking Co. and the Joint Stock Bank of Australia, a land-mortgage bank. It suspended payment in 1893, but it managed to make an arrangement with its creditors and patched up a settlement which enabled it to carry on till 1895. It then attempted to get easier terms from its creditors, but the English and Scottish section of them proved obdurate; whereupon the bank went into liquidation. The main loss, £2,750,000, fell upon the 6000 English and Scottish creditors who had forced its liquidation.

Another "fungoid" bank was the Australian and European Bank, Ltd., which was established in 1873. It stopped payment on June 11th, 1879. It was afterwards amalgamated with the Commercial Bank of Australia, Ltd.

There is not much by way of comment to make upon this group of banks. Only five of them lasted till after the War, though one of them, the Commercial Bank of Australia, Ltd., can be ranked among the first of the six big banks. The others were too hastily conceived to have been of any real service to the economic life of the community.

From 1877 to 1888 thirteen more banks were established. These arose in connection with the inflation that took place during that period connected with the conversion of the British National Debt by Lord Goschen, thereby making capital in England so cheap that it was attracted to Australia by very low rates of interest. This import of capital was accompanied by a very large programme of public works initiated by all the State Governments, and the appearance of prosperity was maintained by a high price for wool during the earlier part of the period.

[1] Sir Charles Dibbs.

The names of these banks are:—

The Mercantile Bank of Australia, Ltd.
The Australian and Economic Bank.
The Commercial Bank of South Australia.
The Standard Bank of Australia, Ltd.
The Town and Country Bank.
The Joint Stock Bank of Victoria, Ltd.
The Sydney and Country Bank.
The Federal Bank of Australia.
The Oriental Banking Corporation.
The Royal Bank of Queensland, Ltd.
The National Bank of Tasmania, Ltd.
The Bank of North Queensland, Ltd.
The Royal Bank of Australia, Ltd.

The Mercantile Bank of Australia, Ltd., was another "fungoid" bank. It was established, with a capital of £500,000, under the name of the Australian and Economic Bank. In 1885 it changed its name to the Mercantile Bank of Australia, Ltd., and doubled its capital, opening agencies in Edinburgh, Glasgow, Aberdeen, Dundee and London. In Australia its activities were mainly confined to Victoria. In 1892 it failed owing to mismanagement. Its failure brought it more notoriety than it deserved. Its shareholders were mainly British, and £1,128,000 of the £1,831,000 of its deposits was British money.

The Australian and Economic Bank, as has already been indicated, was the original name of the Mercantile Bank of Australia, Ltd. It merged its identity in the larger institution on June 11th, 1885.

The Commercial Bank of South Australia was established in 1878, with a capital of £250,000. Of this £100,000 was paid up. It paid dividends from 6¼% to 8%, and at its commencement had 980 shareholders. By 1885 its nominal capital was £1,000,000, of which £400,000 was paid up. It had in that year twenty-five branches. In February 1886 it failed, and as a result of

the investigation into its affairs three of its senior officers were sent to prison.

The Standard Bank of Australia, Ltd., was established in 1879. Its paid-up capital in 1891 was £259,000, in which year it failed. It was reconstituted, but succumbed to the 1893 crisis. It made another attempt, and in 1898 its paid-up capital was £550,000 and it had one branch. In that year it went into liquidation once again, this time finally.

The Town and Country Bank was a South Australian Bank, founded in 1880, mainly to meet the needs of certain forms of speculation that took place at that time. It was chiefly a shareholders' bank, with about twelve branches. It was taken over by the Commercial Bank of Australia, Ltd., in 1887.[1]

Very little is known about the Joint Stock Bank of Victoria, Ltd. It was founded in 1881, and on September 11th, 1882, was amalgamated with the City of Melbourne Bank.

Another small and unknown bank was the Sydney and Country Bank, which was established in 1881. On April 3rd, 1883, it was absorbed by the Federal Bank of Australia, Ltd.

The Federal Bank of Australia, Ltd., was established in 1881 to meet the needs of a very active market in property that had sprung up during that year. It opened as a bank of issue and deposit, with a savings bank branch attached. Its nominal capital was £500,000, of which £250,000 was paid up. In 1882 it took over a land mortgage institution which was carrying on a banking business. The bank had four branches, one being in London. In 1887 it separated its land business from the main bank, opening the Federal Building Society to carry on this aspect of its business. In 1891 the Federal Building Society failed, and this led to a "run" on the bank itself. It was examined by four of the largest banks with a view to lending it aid, but it was found that

[1] "Report of the Commercial Bank of Australia, Ltd.," February 3rd, 1887.

its affairs were too much involved. It was allowed to go into liquidation.

The Oriental Banking Corporation was the old Oriental Bank, which was reconstructed in 1884. In that year its assets realised 18*s.* 4*d.* in the pound, and very little difficulty was experienced in setting it on its feet again. It reopened for business in August 1884, with a nominal capital of £2,000,000. A specific proviso was made that certain forms of business, which had caused its downfall in May 1884, should be left alone. However, this proviso was not adhered to, and in 1892 it was in deep water. An appeal to the Bank of England met with no response, and on June 6th, 1892, it closed its doors. Its failure had no harmful effect upon the Australian banking situation.

The Royal Bank of Queensland, Ltd., opened for business in 1885, with a nominal capital of £100,000. This was almost at once increased to £500,000. It suspended payment in 1893, but repaid its creditors within two years. In 1917 it was amalgamated with the Bank of North Queensland to form the Bank of Queensland, Ltd.

The National Bank of Tasmania, Ltd., was established in 1885, with a capital of £15,000.[1] Though a small bank, it must have been a strong one, because it did not suspend payment during the crisis of 1893. Prior to its amalgamation with the Commercial Bank of Australia, Ltd., in 1917, it was proposed to form a new bank by amalgamating the National Bank of Tasmania, Ltd., with the Bank of Van Diemen's Land, and the Government had agreed to deposit £200,000 in Treasury Bills with it. Nothing, however, came of the proposal. The Bank of Van Diemen's Land went into voluntary liquidation, and the National Bank of Tasmania, Ltd., continued its independent existence until 1917, when it was purchased as a going concern by the Commercial Bank of Australia, Ltd., for £6 15*s.* per share.

The Bank of North Queensland, Ltd., was founded

[1] Letter from the Launceston Manager of the Commercial Bank of Australia dated January 1st, 1926.

with a capital of £500,000 in time to reap the benefit of the Queensland boom of 1888. The bank failed in 1893, but repaid its creditors within two years. In 1917 it joined with the Royal Bank of Queensland, Ltd., to form the Bank of Queensland, Ltd.

The Royal Bank of Australia, Ltd., is not to be confused with the bank of the same name which failed in 1850. The two had no connection whatever. The bank under discussion was purely a Victorian bank, with a nominal capital of £3,000,000, of which £750,000 was paid up. It did not suspend payment in 1893. It continued to make steady progress until 1927, when it was purchased by the English, Scottish and Australian Bank for a sum of £750,000 and 125,000 shares of £5 each paid up to £3.[1]

Of all these thirteen banks founded during the period 1877–88 not one is in existence to-day; in fact the bulk of them did not last until the 1893 crisis. They were all weak banks established at a time of boom and speculation, and did not serve the needs of the community in any fundamental way. The only one of them to which these remarks do not apply was the Royal Bank of Australia, Ltd.

We pass now to a consideration of the coinage, currency and exchange of the States of Victoria and Queensland, which were established during the period we have been discussing, the former in 1851 and the latter in 1859.

Prior to the establishment of Victoria as a separate State, the story of her media of exchange is the same as that of New South Wales. Though Victoria had her own local banks in the early days, when she became a separate State there were only three banks in existence—the Bank of Australasia, the Union Bank of Australia, Ltd., and the Bank of New South Wales. The period that we are about to discuss begins in 1850 and ends in 1860. This period has been chosen for two reasons: first, it covers the period of the gold discoveries, and secondly, it enables

[1] International Banking Section of the *Statist*, November 5th, 1927.

us to study the operation of the new " gold " banks, the last of which was established in 1858.

The records of the monetary and financial transactions of Victoria begin in 1851.[1] These show that in 1851 there was £35,200 in coin in circulation, gold £10,000, silver £25,000, copper £200. In the banks there was £276,695 9*s.* 7*d.* In the next year, curiously enough, we are informed that there was no way of ascertaining what coin there was in circulation, but that there was no shortage. This information is not quite so misleading as one might at first suppose. Two things had happened: first, gold had been discovered, and secondly, the population had increased from 83,000 persons in 1851 to 148,000 persons in 1852. Since these additional immigrants would come, as we know they did, from over the South Australian and New South Wales borders, in addition to coming by boat from Tasmania, California and London, it would not be possible for the Civil Service to keep track of the coins in circulation. In 1853, however, some estimate of the available coinage was possible, viz.:—

In the Bank of New South Wales:

Gold, £500,000 to £700,000
Silver, £10,000 to £15,000.

In the Bank of Victoria:

Gold, £300,000
Silver, £30,000
Copper, £250.

In all a rough total of £840,250 at least; but there must have been more. We are also informed that there was a shortage of copper. From 1853 to 1860 there is no reference at all to the amount of coinage in circulation, but there was a considerable amount of gold in circulation in the Colony and in process of being exported to London

[1] C.O. 313/31 *et seq.*

or to New South Wales, where in 1852 a branch of the Royal Mint had been established and to which in 1854 Walter Stanley Jevons, later to become famous as an economist, came as a young man under twenty as an assayist.[1] The gold export figures of the colony for this period are as follows:—

1853	£8,644,529	1857	£10,987,591
1854	8,255,550	1858	10,107,836
1855	10,904,150	1859	9,122,037
1856	11,943,458	1860	8,624,860

a total of £78,590,011.

If the colonists were without a coinage, though lack of records of the fact does not necessarily mean that they were, they certainly did not lack a note issue. The average value of the notes in circulation prior to the gold discoveries in 1851 amounted to £141,586. In 1852 this rose to £328,894, and this was considerably increased in the following year, the actual amount in circulation being £1,657,859. The complete figures of the note issue for the period, together with those of the population, are as follows:—

Date.	Note Issue.	Population.
1851	£141,586	83,350
1852	328,894	148,625
1853	1,657,859	198,496
1854	2,220,033	273,792
1855	1,967,673	319,379
1856	2,176,848	348,460
1857	2,416,661	463,135
1858	2,046,026	504,519
1859	1,951,819	530,262
1860	Not stated.	548,412

These notes represented only about 20% or less of the annual gold export, and a smaller percentage still of the

[1] See his Letters and Journal; Chapters III and IV describe his sojourn in Sydney.

gold produced annually. But it would appear that the note issue per head was overdone in the first years, because the note issue in 1859 served a population of half a million and more, whereas in 1855 an issue of approximately the same size served the needs of only 319,379 people. Presumably the difficulty was that in the early days, without the existence of properly organised banks on the gold-fields, taken in conjunction with the wandering habits of the miners, it was impossible to obtain the return of the notes once they had been issued.

Passing on to consider the course of the exchange, the records of the Colonial Office show this under three heads, viz.: (*a*) private bills on London drawn by the banks; (*b*) private bills on London purchased by the banks, and (*c*) foreign bills—*i.e.* bills on other colonies, New Zealand and British India. Except in the years 1851, 1855 and 1856, the exports of the Colony exceeded the imports, and there was no public debt until 1859, when it amounted to just over £2,000,000. Judging by the rates charged by the banks, there is nothing to indicate that they were working in unison, for the rates were all different. In the early part of the decade the rates were high, as high as 7% premium or as low as 7½% discount. The rates, above and below par, began to draw together about 1855, and remained just above or just below par almost all the time to the end of the period. The rate on London for private bills purchased by the banks was in excess of the one just discussed. It was considerably at a discount—as much as 12% sometimes—until 1854, when it went to a premium of from 1% to 3%. From then onwards it varied within a margin of 2% premium and 2% discount.

The rate between Victoria and the outside colonies and states during the ten-year period kept fairly close to par; in the first year or two it went to 1½% premium and later occasionally to 2% premium, but in the main it varied from 1% discount to 1% premium.

In Queensland from the beginning there was a British coinage, and British notes were the notes of the banks in existence in that colony at the time. In regard to the course of exchange there is the fullest information.[1] For the period that we are considering the imports exceeded the exports generally, except for the years 1867 and 1868. The banks quoted different rates for bills, and in some cases varied those rates frequently. Up to 1865 the Blue-books give one type of information only in relation to exchange, viz. rates of discount on bills for a certain length of time—65 days, 95 days, from 65 to 95 days, from 95 days to 125 days or for more than 95 days. At the same time, the maximum and minimum selling and buying rates for drafts are given. After 1865 this information is still given, but in addition there are rates on London, on British India and for each of the separate Australian colonies; and an average rate for private bills on London. As far as one can judge, until the year 1863 the maximum and minimum rates at which drafts were bought varied from 2½% premium to 1% discount, the price being mainly at a discount. After that date, though the upper and lower limits remained the same, the price is at par or just above it. The selling price for drafts varied from ½% premium to 2½% premium throughout the period.

Turning next to the discounting of bills. Bills for periods of 65 days, 95 days or 65–95 days appear to be discounted at 7% by all the banks up to 1863; during 1864 there is a tendency for the figure to move up to 8%; but for 1864 and 1865 things are somewhat at sixes and sevens, and rates varying from 9% to 1% appear. After that date they are even higher, as much as 10½% in some cases. Throughout the period rates for discounting bills for more than 95 days were 2% higher than the rates for shorter periods.

We can conclude this section on the coinage, currency

[1] C.O. 238 Nos. 1 *et seq.*, is the source from which the information about Queensland has been obtained.

and course of exchange of Queensland by quoting the following statistics :—

Year.	Total Amount of Coinage.	Total Amount of Notes.	Total Bullion.	Population.
1860	£63,843	£47,768	£43	28,056
1861	84,916	63,104	40	34,367
1862	105,268	87,103	Nil	45,077
1863	128,632	107,638	1,253	61,640
1864	178,503	137,709	13,510	74,036
1865	193,017	181,615	5,390	87,775
1866	218,656	126,957	8,055	96,172
1867	307,907	125,272	12,607	99,849
1868	333,062	167,568	19,174	107,427

Leaving the question of the coinage, currency and course of exchange, we turn next to consider the work of the first Royal Commission on banking that was appointed in Australia. It was appointed by the Victorian Government in 1887 to inquire into the working of the Companies Acts of 1864 and 1881 in relation to the business of banking in Victoria, and the particular points it was asked to make inquiries about were :—

The securing of the note issue.
The practice of the banks in regard to advance upon landed property.
Audit.
Reserves against liabilities.
Unclaimed balances.
The desirability of all banks being uniformly constituted.

After taking evidence and considering it, the Commission recommended in the same year as follows :—

(*a*) That the note issue should be secured by making it a first charge on the assets, in this Colony, of any bank in the event of liquidation.

(*b*) That no bank should be allowed to issue notes until its subscribed capital is £250,000 and its paid-up capital is £125,000.

(*c*) That it be a misdemeanour on the part of any bank to deposit its notes as a security for any advance made by any monetary institution or capitalist.

(*d*) That the restriction by which all chartered banks, and some of the banks under special acts, are forbidden to lend money on mortgage in anticipation of a debt to be incurred, though allowed to take mortgages as security for a debt already existing, be removed so far as concerns banks incorporated by any Act of the Victorian Legislature.

(*e*) All Acts of Parliament incorporating banks in Victoria should be repealed permissively—that is, any bank desiring to come under the Companies' Statute should be able to do so by registering under the Act just as a new banking company would do.

The reason for this is that the shareholders of some banks find themselves encumbered by constitutions of which they cannot divest themselves without " winding up " ; and this Act might be misleading to the public.

(*f*) 1. Sworn returns should have the words " within the Colony of Victoria " inserted after the words " average amount of assets and liabilities."

2. Monies belonging to the Government should be distinguished from other accounts.

3. The percentage reserve of coin and bullion to liabilities should be shown.

4. The accuracy of the sworn returns should be certified by two officers of the bank, one of whom should be the accountant or other officer by whom such return has been made up.

5. Return, Form F, in the 6th Schedule of the Companies' Statute of 1864 shall in future

be furnished annually instead of half-yearly.

6. In all public announcements where authorised or subscribed capital is advertised, at the same time paid-up capital should be mentioned, and nominal or authorised capital should not be advertised without having the word " nominal " or " authorised " prefixed thereto.

The recommendations in this Report were given effect in the year 1888. On the whole, representative banking opinion received the Report favourably. The editor of the *Australasian Insurance and Banking Record* commented on the Report along the following lines:[1]

" The Commissioners have failed to discover anything that was not patent to the average observer. No occult practices have been brought to light. It has been shown that the banks do not make large profits on their note issue; nor do they confiscate unclaimed balances." The evidence of E. S. Park, Superintendent of the Bank of Australasia, and of Mr. Reid, Vice-President of the Chamber of Commerce, advocating (*a*) that the issue of notes should be the prerogative of the Crown, and (*b*) that money from that source should be invested in Government securities, is criticised with the usual objection to a Government's issue of paper. The opinion is expressed that the insistence that note-issuing banks should have a certain amount of paid-up capital arose from the fact that the only bank by whose note issue the public of Victoria had suffered was the Provincial and Suburban Bank, which had only £43,398 in paid-up capital at the time of its stoppage. While not objecting to the removal of mortgage restrictions on chartered banks and banks under special Acts, the editor states that the reasons given for doing so are unsound, on the ground that the Commission should not have exaggerated the importance of land as a security for advances.

[1] *A.I. and B.R.*, August 16th, 1887, p. 462.

Before leaving the Report of the Royal Commission and the comment on it, it is interesting to remark that nowhere in the evidence is there any realisation of the serious situation into which the private, as well as public, finances of the country were drifting. It is almost incomprehensible that six years before the biggest crisis which the country had ever experienced, a Royal Commission on banking should be sitting and hearing the evidence of the experts of the country without there being any reference to the obviously unsound state of affairs.

We turn back now to events in the earlier portion of the period that we are discussing.

The first matter is a consideration of the methods adopted by the banks to handle the gold that was brought to them from the various gold-fields in New South Wales and Victoria. The banks, as a general rule, took delivery of the crude gold from the diggers or from their representatives, and against this crude gold they issued advances up to an amount which the banks thought reasonable. The gold, before the days of a mint, was at once despatched to London, where it was taken over by the Bank of England, the Australian banks receiving either sovereigns or credits in exchange. This very clumsy method went on till the establishment of a mint in 1852. Thereupon the banks gave up handling crude gold. The Chairman of the Union Bank of Australia, Ltd., in one of his speeches to his shareholders about this time, referred to the loss in profits to the banks arising from the changed method of handling crude gold; he added, however, that the losses thereby incurred were made up in other directions by the improved state of business arising from the abolition of the delay in the despatch of gold to England.

An important question for the Australian banks during this and the earlier period was the problem of the Government account. The problem is two-sided. From the point of view of the banks, it is whether the Government account is an advantage or an embarrassment.

From the point of view of the Government the problem is whether its account is safer with one bank or when distributed among several banks. A Government account is probably safer when it is distributed among many banks, but such an arrangement is awkward when a Government wants to float a loan, because there are many banks instead of only one bank to deal with. In the early days before 1850, when there was only one State in the east—New South Wales—the Government account was distributed among all the banks. But after 1850 there was a change in some respects, two of the States, Queensland and Victoria, preferring to distribute their accounts, while Victoria and New South Wales preferred to deal only with one bank.[1] In 1883 the Government of New South Wales, though it had its account placed with the Bank of New South Wales, floated a loan through the Bank of England without consulting the Bank of New South Wales. The former bank wanted to know the reason and whether, in consequence, it might not be desirable to revise the existing arrangement which the Government had with it. The terms of the existing agreement were: (*a*) that the working account of the Government should be kept in funds to a certain figure, and (*b*) that there should be a fixed deposit of a certain amount before the Government should deposit elsewhere. The complaint of the bank was that the Government had overdrawn its account and that it had floated a loan with the Bank of England without consulting the Bank of New South Wales. The Government agreed to place part of the loan with the Bank of New South Wales, but withdrew its account and distributed it amongst nine banks. In regard to the loan, the Bank of New South Wales was of the opinion that it should have the whole of it; on the other hand, the Bank of England refused to inscribe any stock unless it was to issue the stock as well. The Government of New South Wales thereupon decided upon a loan of £5,000,000, and of this amount £2,000,000

[1] *A.I. and B.R.*, January 1888.

was given to the Bank of England and £3,000,000 to the Bank of New South Wales.

In Victoria in 1887 the Associated Banks waited on the Colonial Treasurer and informed him that it was their intention to enlarge their membership by including the National Bank of Australasia, Ltd., and the Commercial Bank of Australia, Ltd., in the Association. Permission was sought from the Treasurer to include these two banks among those to whom the account was distributed. To this action the Treasurer agreed. The banks then went on to ask that the amount of the Government's overdraft should be reduced from £2,250,000, which was the existing amount in the agreement, to £1,650,000. To this the Treasurer replied by asking the banks to defer their request for six months.[1]

The arrangement for distributing the account in New South Wales must have come to an end, for in 1890 there is a reference to a decision of the Government to distribute the account at 4½% interest, payable half-yearly, with three months' notice of withdrawal. In Victoria prior to July 1892 the Government account was distributed amongst the Associated Banks, on the understanding that an overdraft would be granted in London up to £50,000 unsecured and £100,000 secured for each bank, subject to seven days' notice. In that month, however, the agreement was changed; the overdraft was reduced to £75,000 instead of £150,000, and forty days' notice was required instead of seven days.[2] The crisis in 1893 rather shook the faith of the New South Wales Government in the safety of a distributed account, so the account was transferred to the Bank of New South Wales.

Difficulties of a similar character to these occurred during 1891 and 1892 between the Government and the Queensland National Bank, Ltd., and the Government and the Bank of England. In fact so strong did the hostility between the Government and the Bank of England become that at one stage of the proceedings relations between the two were wholly suspended. It

[1] *A.I. and B.R.*, May 14th, 1887. [2] *Ibid.*, July 18th, 1892.

came about in this way. In May 1891 the Queensland Treasurer, Sir Thomas McIlwraith, wanted money; the Government's banking account had run down and £1,170,000 worth of debentures were falling due. A loan was offered, in bad circumstances, for subscription. It was arranged that if the loan fell flat, the Bank of England would come in up to £500,000. When the tenders were opened it was found that only £300,000 had been subscribed, and the Bank of England declined to subscribe; it, however, lent its aid to negotiations which finally induced capitalists to come forward and take the issue at something under 90 rather than 92, which was the original figure. Whereupon the Queensland Treasurer in the House of Parliament accused the Bank of England of breaking faith and of not acting as an honest bank should have done by subscribing to the loan when it discovered that the loan had failed. The Bank of England retaliated by asking the Agent-General for Queensland to obtain the withdrawal of the offensive phrases.[1] The Queensland Premier supported his Treasurer in the controversy, and the Bank of England at once terminated its relations with the Government of the Colony. Official banking opinion in Australia sided with the Bank of England, and, after making further and fuller inquiries, the Queensland Government discovered that the Bank of England had not subscribed to the loan on the ground that even its £500,000 subscription would not have made the loan a success. It had subscribed to the second issue, however. Thereupon on March 29th, 1892, the Treasurer made an official apology to the Bank of England in the local House of Parliament. This apology was accepted by the Bank,[2] and the incident then terminated.

We have already considered the position of the Australian banks in relation to the vexed question of the payment of interest on current account, and in this consideration we carried the story as far forward as the year

[1] *A.I. and B.R.*, which in turn had copied its account from the *Economist* of November 28th, 1891.

[2] *A.I. and B.R.*, April 18th, 1892, and May 10th, 1892.

1851, with the opening of the Oriental Banking Corporation, which re-introduced the practice, in that year. Somewhere about 1855 a concerted attempt was made to induce the banks to give up the practice. A number of banks, among them the Bank of South Australia, the National Bank of Australasia, the Union Bank of Australia, the Bank of Victoria and the Colonial Bank, drew up what was known as the London Agreement, by which it was decided not to pay interest on current account and to reduce the discount rate by 1%. The English, Scottish and Australian Bank, one of the new banks, refused to join in, and later the Colonial Bank withdrew. In 1859, however, the smaller South Australian banks became annoyed because the large banks, with head offices in London, had opened branches in South Australia, a State which, in the opinion of the South Australian banks, was already well provided with banking facilities. Competition became very keen, and the banks which had not signed the London Agreement at once began to pay interest on current account and to lower the discount rate. Then the Bank of New South Wales opened a branch in South Australia, and this so annoyed the Directors of the Bank of South Australia that they at once determined to break with the London Agreement and offer to pay interest on current account. They also dropped their rate of discount ½% below that of the London Agreement. This indicates how difficult it was in these early days to maintain a consistent policy upon so controversial a matter as the payment of interest on current account. The whole problem reappeared again in Victoria in 1885. But before explaining how this came about, it is as well to explain that there is no such thing as an association of banks comprising the whole of Australia, including the banks with head offices in London. There is an Associated Banks in each of the capital cities, and one in London and in New Zealand, and the tendency is for them all to keep an eye upon each other and work in harmony, and the balance of power appears to rest in Sydney or Melbourne; but there have been occasions

when the Anglo-Australian banks have received instructions from London which have led them to do things which went against decisions reached by the various Associations in Australia. In 1886 the Associated Banks in Melbourne abandoned their agreement about the rate of interest. The editor of the *Australasian Insurance and Banking Record* thought that this was due to the fact that the original agreement to keep a harmonious rate of interest was merely a local agreement, and that it did not include all the colonies.[1] It must be remembered that the years were critical ones, for a period of heavy inflation had set in. Low interest rates meant speculation, high interest rates meant the cessation of speculation, but if a high rate were maintained for a sufficiently long period it meant the attraction of funds from London, and this would lead to speculation. In January 1887 the banks agreed to drop the rate of interest on deposits to 5%. This meant that the mortgage companies would have to go higher to attract people's money. The decision to go to 5% was not reached without considerable difficulty. First the Queensland banks would not agree; then the idea was that the Victoria and New South Wales banks, particularly the Anglo-Australian ones, should act without Queensland. Finally the Queensland banks agreed to come in. On January 17th, 1888, the deposit rates were: for three months 3%; for six months 4%; for twelve months 5%. In August all the rates were reduced by 1%, and this rate continued until October 1888, when it was raised again. The following list of rates on deposits for the period 1877–88 will give some idea of the way in which the rates moved:—

Date.	Rate.	Date.	Rate.	Date.	Rate.
Oct. 1877–78 .	6%	Nov. 1881 .	4%	June 1886 .	6%
Jan. 1880 .	5	Aug. 1882 .	5	Jan. 1887 .	5
July 1880 .	4	Dec. 1883 .	6	Aug. 1887 .	4
July 1881 .	3	July 1884 .	5	Oct. 1888 .	5

[1] *A.I. and B.R.*, July 14th, 1886, page 372.

That is to say, from October 1877 to October 1888, a period of 132 months, 6% ruled for fifty-three months, 5% ruled for forty months, 4% ruled for twenty-eight months and 3% ruled for eleven months. Also, taking the decade 1878–88, during the first half of it the average rate was 4·81%, and for the second half 5·06%. It will be seen later how important these statistics are, when we come to consider the 1893 crisis, the predetermining causes of which were concealed in this period of years. Moreover, it was the deposit rate which largely determined the size of the volume of funds that helped to create the state of inflation which existed at the time.

In London in January 1891 the deposit rates were again advanced, in the hope of tempting the Scottish depositors, who always seemed to have a special interest in Australian investments. In Australia, in March of that year the Sydney Associated Banks advanced rates from 4% to 5%, and the Melbourne and Adelaide Associated Banks immediately followed suit. Here the rate remained for a considerable time, till January 1893, when the Bank of Australasia and the Union Bank of Australia, Ltd.—the two leading Anglo-Australian banks—withdrew from the Australian Associated Banks in London. This brought to a close the agreement which had been in operation ever since November 1875. The original idea of this agreement was harmony in the rates, London on Australia, and the reason for terminating the agreement was the opinion of the Bank of Australasia that the rates should be optional.

We may now, with advantage, sum up the general position in regard to deposit rates in Australia. In the early days it was the custom of the banks to pay interest on current account; this custom persisted all through the crisis of 1841–2–3, which crisis placed the banks in a position to be able to make a strong stand in the matter. In 1845 the practice ceased. With the arrival of the Oriental Bank in 1851 the practice was re-commenced. It continued with the formation of the new banks and the gold discoveries up to approximately 1858, when it

ceased once again, and, as far as can be discovered, there was no further change in the policy till 1886. The Australian agreement of 1886, which was abandoned, was resumed in 1887. In 1893 the Australian Associated Banks in London terminated their special agreement, which had been entered into in 1875, and in 1896 the Colonial Banking Association was dissolved. The special circumstances which the 1893 crisis produced were responsible for this dissolution, and more will be said about this in Chapter IV.

It is interesting to notice the way in which the deposits and shares of the banks, that we were examining at the beginning of this chapter, are distributed among the various States of Australia and between the English and the Australian shareholders or depositors. The first set of deposits that we shall examine, merely for the purpose of comparison, is that of the Union Bank of Australia, Ltd.[1] In 1889 the Union Bank of Australia, Ltd., had deposits of £12,450,000, and these were distributed as follows:—

State.	Amount of Deposits.
Victoria	£3,500,000
New Zealand	2,000,000
New South Wales	1,700,000
Queensland	800,000
Tasmania	750,000
South Australia	600,000
Western Australia	300,000
Great Britain	2,800,000
Total	£12,450,000

If we re-arrange these figures we have:—

Australia	£7,650,000
Great Britain	£2,800,000
New Zealand	£2,000,000

or approximately 25% of the bank's deposits in Great Britain and 75% of them in Australia.

[1] These figures are taken from Nash, "Banking Institutions of Australia."

In 1893 the London Chartered Bank, Ltd., had Australian deposits worth £3,314,500. They were distributed as follows:—

State.	Amount.
New South Wales	£869,500
Queensland	150,000
Victoria	2,295,000
Total	£3,314,500

The following are the figures of the Commercial Bank of Australia, Ltd., for the years 1890 and 1892, respectively, showing the amounts of the British deposits, the Australian deposits, the relative percentages and totals.

Place.	Date.	Amount.	Percentage.
Australia	1890	£6,837,000	70
Great Britain	1890	2,400,000	30
Total		£9,237,000	
Australia	1892	£5,600,000	49
Great Britain	1892	6,300,000	51
Total		£11,900,000	

Just one more illustration, but this time to show the distribution of the shares of the National Bank of Australasia, Ltd., in its very early days.

State.	Number of Shares.
Victoria	54,000
South Australia	11,370
Other States	2,932
Total	68,302

These statistics indicate, what indeed was the case, the tendency for money to be concentrated in New South Wales and Victoria.

Though a clearing-house is almost a *sine quâ non* of a

modern banking system, it is a rather recent addition to the Australian system. It is generally imagined by those who know anything about the matter that Melbourne was the first town to establish the clearing system. While this is true generally speaking, there is a record to the effect that in 1885 or thereabouts Sydney had a clearing-house, but abandoned it.[1] The first permanent clearing-house was established in Victoria in 1868. Membership of the clearing-house must have been important, and the privilege of handling notes must in some way have depended on membership, because we find Mr. Longmuir, General Manager of the City of Melbourne Bank, complaining to the Royal Commission that was sitting in 1887 that means ought to be taken to compel the clearing-house, in the public interest, to admit any new bank to its privileges provided it had a certain amount of capital. He complained further that it was possible for the banks constituting the clearing-house to keep any new bank out of it, and in that way to prevent them from issuing notes.[2] The "Statistical Register for New South Wales"[3] has an interesting account of the Sydney clearing-house. It is referred to as the Banks' Exchange Settlement or Pool:—

"This institution was established on January 18th, 1894, in order to facilitate the exchange of notes, cheques, etc., between the banks of issue transacting business in New South Wales. The pool consists of £700,000 in gold, the contribution to which by each bank is regulated by the volume of business transacted. The gold, which is placed in the hands of three trustees, is deposited in locked boxes in the vaults of three of the banks, and cannot be circulated or disturbed. No bank is permitted to allow its daily credit balance to fall below 25% of its fixed contribution to the £700,000. Country cheques, etc., are forwarded to the different country branches, and are eventually included in the balance due in Sydney between the various banks."

[1] Letter to the *A.I and B.R.*, June 16th, 1896, page 398.
[2] *A.I. and B.R.*, May 14th, 1887, page 273. This would not be a legal prevention.
[3] C.O. 206/155.

The commencing dates of all the clearing-houses in Australia are as follows: Melbourne 1868, Sydney 1895, Brisbane 1905, Adelaide 1911, Perth 1916.

We pass on now to consider the raising of capital, the payment of dividend, branch expansion and matters of a similar character during the period under discussion. In trying to ascertain the volume of capital in the possession of the Australian banks for the period 1850–93 and the rate of flow into the Australian banking system, we are met with a preliminary obstacle in the lack of information. The statistical records of the Colonies were not properly organised till late in the century. There is no complete record of the balance sheets of all the banks for the period we are considering, and the *Australasian Insurance and Banking Record* does not begin until the year 1877, and even when it does begin, it deals only with the affairs of the banks of issue, and it includes the figures for the New Zealand banks in addition to those of Australia, so that these figures would have to be disentangled before they could be used. The most complete set of records is that contained in the *Banking Almanac*, which began publication in 1844. But this production does not give us the figures of the colonial banks till they have established a branch in London, and as some of the colonial banks were long in doing this, we do not get a record of their activities till many years after they have been engaged in business. However, when their figures are recorded they are accurate. Hence when we take the totals of capitals of the Australian banks in their early references in the *Banking Almanac* we may be quite sure that the totals are less than they should be. About the year 1880 the *Banking Almanac* begins to give the figures of all the colonial banks, whether they have a branch in London or not, so that from that date onwards the totals are probably accurate. There is also this to be borne in mind. The *Banking Almanac* up to about the year 1885 used to be published on the first day in the new year, so that its statistics refer to the previous year; hence figures given

for the year 1885 are really for the year 1884, and in the case of Australian banks the statistics are for the last balance-sheet for the previous year, which, in some cases, means for March of the previous year. Subject, then, to the limitations set out above, the *Banking Almanac* is as good a source of information as we possess. What I have done has been to go through the balance-sheets of the banks presented in the *Banking Almanac*, making a list each year of the paid-up capital, reserves and branches of each bank; these have been totalled and carried forward into the next year, when the process has been repeated; and so on till the whole of the ground has been covered. This gives us upwards of thirty sheets of figures, and, as it would have been impossible to incorporate these in a book of this character, I have set out a list of the annual totals of the paid-up capital, reserves and of branches in Appendix VIII. This does give us some definite idea of the rate of flow of capital into the Australian banking system, and also of the rate at which reserves were accumulated. From this list we see that in 1850 there was brought forward from the previous period a total sum of capital amounting in all to £2,850,000, and apparently there were no reserves. In 1895—that is, for the year 1894—the total amount of paid-up capital in the possession of the Australian banks was £22,220,628 and the accumulated reserves were £7,194,626. These figures were, however, only just reached in the year 1894. If we take the previous year, 1893, we find that the paid-up capital was only £17,706,639 and the reserves were £8,780,176. If we take the accumulations of capital by decades, we see that by the year 1860 approximately £5,000,000 had been reached; by 1870 the amount was £10,032,156; by 1880 it was £12,900,250, and by 1889 it was £16,340,401. That is to say, the period during which the flow of capital into Australia was the largest in volume was the period 1860–70; the capital market was very slack from 1870 to 1880, and was only slightly more active in the period 1880–90.

Turning next to the question of branches and branch expansion, we must remind ourselves of the importance of branch expansion as an indication of development, and when it is taken in conjunction with overdraft statistics it is probably the best indication of development. In the records of the Australian banks, and in financial literature generally, there is not much reference to the question of branch policy. However, on December 6th, 1887, Mr. J. Y. Walker, a former manager of the Royal Bank of Queensland, lecturing before the Australian Economic Association at Sydney, discussed the problem of branch policy in a rather interesting way.[1] His remarks refer to the advisability or otherwise of confining branch activity to one State and to the relative cost of branch maintenance, judged as a percentage of gross profits. These questions are important ones in view of the fact that after 1893 there was a general tendency towards amalgamation and to the building up of large banking institutions, whose activities came to reach all over the continent. Walker points out that the evidence available does not justify any generalisation on this main question of State *versus* inter-State branches, but he goes on to add that the three banks paying the highest dividends confine themselves to restricted areas, viz. the Commercial Banking Company of Sydney, which confines itself to New South Wales and Queensland, and pays 25% dividend; the National Bank of Tasmania, paying 20% in dividends and confining itself to Tasmania; the Western Australian Bank, which kept to Western Australia. On the other hand, the banks in the forefront of Australian banking, the Bank of Australasia and the Union Bank of Australia, Ltd., are represented in all the States. Walker adds that branches are luxuries for small banks, and he goes on to show, by way of illustration, that the City of Melbourne Bank conducted its business at a cost of 19·22% of its gross profits, whereas in the case of the Bank of Australasia working expenses absorbed 44% of the gross profits, and in the case of the Union Bank of Australia, Ltd., from

[1] *A.I. and B.R.*, January 1888.

42¼% to 47½%. The expenses of the Anglo-Australian banks, according to Walker, were heavier than for those banks with head offices in Australia.

Turning to the actual figures of the branches, we find from Appendix VIII that in 1850 there were nine branches in existence, whereas in 1893 there were 1470, quite a formidable expansion. Taking the expansion of the branch numbers by decades, we have the following table:—

1850	9
1860	71
1870	351
1880	798
1889	1212
1893	1470

The expansion from 1889 to 1893, the period when the banks were supposed to be deflating, is quite considerable, and was due to the fact that the smaller banks were trying to win new business in order to keep their heads above water.

In order to illustrate the distribution of branches among the States, three examples have been selected, viz. the Bank of New South Wales in 1889, the Commercial Banking Company of Sydney in each decade from 1850 to 1890, and the Bank of Australasia in 1892. The distribution of the branches of the Bank of New South Wales in 1889 was as follows:—

State.	Number of Branches.
New South Wales	89
New Zealand	31
Queensland	30
Total	150

The distribution of the branches of the Commercial Banking Company of Sydney was as follows:—

Date.	N.S.W.	Queensland.	London.	Total.
1850	1	0	0	1
1860	8	2	1	11
1870	33	4	1	38
1880	79	5	1	85
1890	137	13	1	151

The situation in branch distribution for the Bank of Australasia in 1892 was as follows:—

State.	Number of Branches.
Victoria	62
New South Wales	34
Queensland	10
Tasmania	14
South Australia	7
New Zealand	27
Total	154

We shall next consider the dividends paid by the Australian banks for the period 1850–93.

There does not appear to be any guiding principle actuating the Australian banks in the payment of dividends during this period. The only discussion of this question is that by Walker at the same time that he was discussing branch policy and kindred matters before the Australian Economic Association (*vide* pages 79 and 80). Walker lays down the following principle in relation to the payment of dividends: that until a bank has a substantial reserve it is foolish to pay dividends exceeding 8%; and that reserves should, until then, be invested outside the bank in Government securities. In the main, the Australian banks have not followed that principle. An examination of the records of the Australian banks shows that the lowest dividend paid during the period under discussion was 2½%, while the highest dividend recorded was 36%, which was paid by the Union Bank of Australia. There is some dispute about this last figure. There were references in the Australian Press during 1929 to higher dividends, but in the records that I have inspected I have

found nothing higher than 36%. The "Joint Stock Year Book in Australia" on page 67 supports this figure, though Walker in his address to the Australian Economic Association in 1888 says the figure was 40%. Amounts varying from 15% to 25% were quite common. High dividends were the main inducement held out to investors by those who were endeavouring to attract capital to Australia and, generally speaking, it is true to say that during the period that we are discussing the Australian banks paid high dividends. If one sets out the individual dividends of the banks in each year, and then takes an average, the position revealed, approximately, is that in 1850 and 1851 the average dividend was 10%. It then rose rather sharply during the remainder of the decade 1850–60. From then till the end of the 'sixties it averaged about 14 or 15%, when there was a slight fall, reaching its lowest in 1870. After that year the dividend stayed at about 15% until about 1877 or 1878, when there was a tendency for it to fall. Some of the banks during all these years paid consistently high dividends—for example, the Commercial Banking Company of Sydney, which paid a 25% dividend from 1876 to 1893. In the case of the other banks the dividend fluctuated considerably, though this was in some cases due to the policy of the directors rather than to the size of the profits. For example, the dividends of the Union Bank of Australia, Ltd., have fluctuated from 5% to 36%, because it was the policy of the directors to pay away all profits in dividends. The dividends of the City Bank of Sydney also fluctuated considerably, from 2½% to 12½%. Other banks preferred a policy of steady uniform dividends, never rising very high or falling very low. This has been the policy of the Bank of Adelaide, where the dividends have kept within the limits of from 6% to 10%. Again, some banks have started with small dividends and have gradually worked up to a large one; the English, Scottish, and Australian Bank is an example of this, for from 1867 to 1874 it paid a dividend of 7%, from 1874 to 1883 it paid 8%, and from 1883 to 1893 10%.

We may conclude this chapter with a brief *résumé* of the essential points in the story that we have been discussing. The period represents an era of expansion and of experiment. In 1850 there were ten banks in existence, with a paid-up capital of approximately £3,000,000; there had been no gold discoveries, no development of secondary industry and not many problems to be faced. When we emerge from our period in 1893 the Australian banking system seems to have grown up, though the growth has not been orderly or pre-arranged. Twenty-six banks are found to be in existence, with a paid-up capital of £16,911,699; these banks have developed 1470 branches, with a tendency to concentrate their activity in New South Wales and Victoria. There have been gold discoveries, which, in addition to the new population that they attracted, also gave one of the States, South Australia, an opportunity to make an interesting financial experiment, while the type and quality of the population which came to the gold-fields in a sense predetermined the development of secondary industries. All of this fairly rapid development created problems, such as excessive branch competition, differences about discount and overdraft rates, and the best method of handling a Government account. It was not generally realised that most of these were symptoms of an underlying cause—the unregulated and unplanned development of a banking system which was growing up in response to the operation of a business philosophy based on *laissez-faire*. This unregulated and unplanned growth was to result in a very severe financial crisis, which brought ruin to two-thirds of the banks and their clients. We can perhaps with advantage turn and study that crisis.

CHAPTER IV

AUSTRALIAN FINANCIAL CRISES

In Australian financial history there have been five periods of extreme stringency. The dates of these periods are:—

1. 1780–1817.
2. 1841–43.
3. 1851.
4. 1866.
5. 1888–93.

The first of these periods of stringency arose from lack of currency in the Colony. The second was a real financial crisis. The third was a local affair in South Australia, though its causes lay outside the Province. The crisis in 1866 was confined to Queensland and was connected with the development of a public works programme initiated by the newly-established state Government. The period from 1888 to 1893 was the most important of all, and it attracted considerable attention in other parts of the world. Let us consider each one of them in turn. We shall omit the period 1780–1817, because that was dealt with in Chapter II.

The Crisis of 1841–43.

The important factors which have a bearing on this crisis are as follows:—

1. The population of Australia had grown considerably during the period 1830–40. In 1828 it was 58,000, but in 1850, just prior to the gold rushes, it was 450,000.[1]

[1] See article in the *Economic Record*, by C. H. Wickens.

2. The number of banks operating in Australia had increased from eight in 1830 to ten in 1841.[1]
3. The presence of population and of banking facilities created a feeling of optimism on the part both of the Government and of the people. This optimism took the form of an expansion of business.

The presence of population with needs to be satisfied created a market, and the business men of the Colony proceeded to supply what was required. The main requisites were food, clothing and shelter. Food and shelter depended mainly on what the land could supply; clothing at this stage of the Colony's development was supplied by imports. The general result, then, of the influx of population was an activity in the sale of land and a huge increase in imports. These two factors in the economic situation were accompanied by very high prices for wool, the year 1839 being an unusually prosperous one for pastoralists.

It was this activity in the sale of land that led to the development of unsafe conditions. The reason for this was that the conditions of sale made for various forms of speculation and abuse. Credit was allowed to extend over a period of seven years, so that many were tempted to buy land by paying a small deposit, with the intention of selling again at a higher value. As an indication of the extent to which the banks were supporting this type of land transaction, £2,610,000 of the £3,050,000 assets possessed by the banks were bills discounted.[2] These were nearly all bills connected with land transactions, and many men in the towns were receiving them as part payment from the farmers or from others who were dealing in land.

In 1838 Nature had added to the prevailing difficulties by subjecting the Colony to a drought. This drought

[1] Appendix I.

[2] Coghlan, "Labour and Industry in Australia," Vol. I, page 476.

spoiled two harvests, and this, in its turn, led to a decline in the value of colonial property, while the absence of wheat supplies brought about its importation under conditions of speculation. With a fall in the value of property, the bottom fell out of the estate market, and, in consequence, the banks, whose advances were secured by the property whose value was declining through the failure of the wheat crop, decided to restrict credit. The Government, with the idea of assisting the banks, increased its fixed deposits steadily to an extent the measure of which can be seen from the following figures[1]:—

February	1840	£66,500
May	,,	126,000
June	,,	188,000
July	,,	281,000

During 1841 the revenue of the Government from land began to show signs of a serious decline. The revenue in 1840 had been £316,626, and in 1841 it was £90,387. This being so, the Government had recourse to the banks for help, and apparently changed its arrangements with those institutions, for only £75,000 was left on fixed deposit at 7%, as compared with £281,000 in July 1840, though the remainder was still left with the banks at call. These operations threw a strain on the banks, whose total deposits were only £1,723,636; and 20% of this money was the property of the Government. Then, in addition to all these difficulties, the price of wool declined considerably, and the pastoralists, in order to maintain themselves till the return of better times, mortgaged their land. As an indication of the extent to which this was done, mortgages rose in volume from £248,891 to £514,741.[2]

The situation had become very difficult, and its precise state was fully realised when the Bankruptcy Act of 1842 was passed. The purpose of this Act was to protect debtors who went into voluntary liquidation. During

[1] Coghlan, "Labour and Industry in Australia," Vol. I, page 483.
[2] *Idem, ibid.*, page 487.

the first year of the operation of the Act there were 392 bankruptcies, with liabilities of £1,250,000. By the end of the second year the number of bankruptcies had risen from 392 to 600, an average of fifty-five a month. In 1843 there were additional failures, though the total number was less, the average being from twenty-five to thirty-five a month.[1]

Then three of the banks failed, and none of them was able to reconstruct itself. Their names were:—

The Bank of Sydney.
The Bank of Australia.
The Bank of Port Phillip.

The failure of these institutions was followed in May 1843 by a "run" on the Savings Banks, but these were in a position to meet the situation. By this time the value of property had fallen considerably. Estates which had been worth £1,055,080 declined in value to £300,000 by 1844.[2]

Before this date, however, steps had been taken by the Government to alleviate the situation. In 1843 Wentworth, Premier of New South Wales, seeing that there were plenty of securities available which the banks would not accept, passed an Act allowing movable property to be mortgaged. An Act so repugnant to English legal principles was not likely to receive much support from the Imperial Parliament, but Wentworth succeeded in putting the case for the Act with such force that it was allowed to pass the Houses of Parliament. Its effect upon the situation in Australia was beneficial. At the same time, a man named O'Brien discovered a way of boiling down sheep for tallow at a return to the owner of from 5*s.* to 6*s.* per sheep, and this method of utilising the bodies of sheep helped to steady matters considerably. Shortly after this the crisis appeared to spend itself. This could be seen from the decline in land speculation and by a decline in imports. From 1840 to 1844 they fell from

[1] Coghlan, "Labour and Industry in Australia," Vol. I, pages 488–89.
[2] *Idem, ibid.*, page 490.

£3,014,189 to £931,260. The actual details for each year are these:—

Date.	Amount.
1840	£3,014,189
1841	2,527,988
1842	1,455,059
1843	1,550,544
1844	931,260

The fall in land values set matters in their true perspective. The fall in imports and the end of the drought were indications that the crisis was over. By 1844 the productive forces of the community began to assert themselves, but there was no revival of trade till the discovery of gold in 1851.

This crisis is a very instructive one if it is carefully studied. It produced, in its main features, the characteristics of the Queensland crisis of 1866 and of the larger one of 1893. Speculators and others, anxious to make money, attempted to force the development of the Colony faster than economic circumstances justified. In their activities they were financed by the banks. All went well so long as the price of wheat and wool kept up. Importers, seeing prosperity all round, placed more orders in London than was customary, thereby swelling the volume of imports. Then came a drought and a fall in the price of wool, and the banks, to protect themselves and their shareholders, restricted credit. Prices at once fell and the depression set in.

Before going on to consider the South Australian crisis of 1851, we may look at a condition of affairs, verging on a crisis, in South Australia which occurred at the same time as the crisis in New South Wales, though for different reasons. This will serve by way of an introduction to the 1851 crisis.

South Australia was founded in 1836 on the Wakefield system. This means that half of the income derived from the sale of land was devoted to the task of bringing out immigrants from London. Unfortunately no attempt was made to relate the flow of population to the

Province's power of absorbing it. Gawler, the Governor, therefore started public works to absorb the additional people, and to pay for this he drew bills on Her Majesty's Treasury up to £150,000. When these bills were presented in London they were dishonoured, and on being returned from London they had 20% exchange charges added. This proved to be disastrous to the credit of the Government. This was in 1840. For three years the activities of the Province were depressed, but in 1843 the Kapunda mines were discovered, and in 1845 the Burra mines. The effect of this on the coinage was to increase it from £22,504 in 1840 to £188,659 in 1846.[1]

The 1851–52 Crisis in South Australia.

In 1851 gold was discovered in New South Wales and Victoria. There was a rush of South Australian settlers to both of those states, and this had a serious effect upon the economic situation in South Australia. The Province was denuded of labour, there was no one to work on the farms or to serve in the shops; the Civil Service was depleted of officers. With the departure of the population, gone were purchasing power and a market. Added to these difficulties was the further one that South Australia was in the throes of a drought.

The problem to be faced was a two-fold one. First there was the provision of currency to keep the wheels of industry moving; and, secondly, there was the necessity of finding some means of bringing the colonists back to South Australia. Owing to the nature of the problem, it was natural that the people should turn to the bankers for advice, and since the largest bank in the Province was the Bank of South Australia, it was to this institution that those with solutions of a crude character turned. Mr. George Elder, of A. L. Elder & Co., conceived the idea of getting an Act of Parliament passed to make stamped gold, issued from the Government Assay Office, pass for money. It could then be made legal tender. It so

[1] C.O. 17, Nos. 12-23.

happened that the manager of the Bank of South Australia was absent in London; but the acting-manager, Mr. George Tinline, took Mr. Elder's idea and perfected it.[1] He finally induced the Governor to accept it.[2] The plan was as follows:[3] to make bank-notes legal tender for six months; then to buy gold at £3 10*s.* 1*d.*, this being a higher price than that which was offering in Australia; next, to assay gold in South Australia and to repay the owner of the gold through the bank. The scheme was put into operation by the passage of the Assay and Bullion Act.[4] The idea behind the scheme was that the notes would provide the necessary currency; and the artificially high price for gold would bring the colonists back to South Australia to get the highest price for their gold. It should be here understood that the transport of gold was extremely difficult; though a gold escort travelled from Adelaide to the border of Victoria, the gold was never really safe, and colonists preferred to travel with the escort to protect their own gold. Hence it was that a scheme which offered such a high price for gold could be depended upon to bring the colonists with the gold. The return of the colonists created the market that was necessary for the revival of trade. The Act had the practical result that it was created to achieve, but, in the powers which it had conferred, it had invaded the sphere of the Royal Prerogative by creating, without Royal permission, what was in effect a mint in addition to those mints already allowed by the Secretary of State for the Colonies and the Lords of Her Majesty's Treasury. When the Act came up for Royal sanction, the Governor of the Province made the necessary explanations, because by the time the Act reached England the six months had passed during which the notes were legal tender, and the necessity for minting gold no longer existed. The explanations were accepted and the Act was approved.

[1] *A.I. and B.R.*, June 14th, 1886.
[2] Gill, "Coinage and Currency of South Australia."
[3] Speech of Tinline in the Exchange in 1852.
[4] No. 1 of 1852, South Australia.

Thus does economic necessity become the mother of invention, even to the extent of decentralising the financial sovereignty of the British Crown. The discordant note in the whole of the proceedings came from the Surveyor-General, Mr. Torrens, who strongly attacked the Act when it was under discussion.[1] He pointed out that the Act would cause inflation; that, as an Act, it contained no provision for bringing the colonists back to South Australia; that it created an artificial price for gold by interposing the Assay Office between the digger and the gold merchant. He suggested that the gold taken from the digger should be converted into coin and paid out to him; and that the section of the Act which allowed of the unrestricted issue of notes should be repealed. However, the high price of gold did bring the colonists back, and the high prices resulting from the slight inflation made South Australia a good place in which to sell goods. These practical results induced people to overlook the virtues of the theory of money which Mr. Torrens expounded so ably in the *South Australian Register*.

This South Australian crisis is interesting for four reasons. In the first place, it is an illustration of the principle that population will always flow to value; *i.e.* the colonists flowed out to Victoria and New South Wales in search of what was thought to be value; they then flowed back to South Australia in search of what was again thought to be value. Secondly, the crisis is a useful illustration of the contention that population can both create and destroy value; *i.e.* with population away on the gold-fields, values fell in South Australia, but with the return of the colonists values at once began to improve. Thirdly, in the steps which were taken to meet an unusual situation we see that money can be made the servant of man, and not his master; had Mr. Torrens had his way, money would have become the master of the Province. Fourthly, the fact that the coining of money should be regarded as an infringement of the Royal Prerogative is interesting, because it raises the whole question of the

[1] See the *South Australian Register*, 1852.

financial aspect of sovereignty, which will come up again when we come to discuss the question of a central bank for Australia and its relation to the control of the note issue as an aspect of sovereignty.

The 1866 Crisis in Queensland.

Queensland as a State had not been very long established when her Government was called upon to handle a serious financial crisis. The Government had for five years been engaged in a programme of public works that was being carried out with borrowed money raised in London on behalf of the Government by the Union Bank of Australia, Ltd. In 1862 the Queensland Government had floated a loan in London through the bank, and this loan was followed in 1864 by another. The amount of the 1862 loan was £707,500, and that of the 1864 loan was £1,019,000. The earlier loan was mainly a railway loan. When the 1864 loan was placed on the London market, just about the time of the Overend-Gurney crisis in that city, it did not appear to attract the investors sufficiently to guarantee its success, and a portion of it was not taken up. In order to assist the Government of Queensland in its extremity, the Union Bank agreed to grant overdrafts to the Government equal to the amount of the loan that was not taken up, the idea being that when it was taken up the proceeds from the sale of the stock could be handed over to the Union Bank. Unfortunately this arrangement did not work out well, because after the bank had advanced overdrafts for the year 1865 and for a portion of 1866 the price of the stock began to decline. It fell first from £104 to £102, and then again from £102 to £97 10*s*. The Government then decided to raise another loan for £1,170,950, but when the Union Bank was approached it would not advance overdrafts against this third loan. The Government, in a quandary, turned elsewhere for assistance, and eventually accepted the offer of £500,000 from the agents of the Agra and Masterman Bank. These agents were the Oriental Banking Corporation, and their Australian office was in Sydney. When the Government succeeded in finding someone to lend it money, the Union Bank agreed to advance against the loan up to £100,000. Then there occurred a series of calamities. On May 10th, 1866, the firm of Overend, Gurney & Co. failed, and its failure at once led to a fall of 3*d*. a pound in the price of wool. Then Messrs. Peto, Brassey & Betts failed, with large Queensland contracts. This failure was followed by the collapse of the Agra and Masterman Bank, which had offered the £500,000 loan to the Queensland Government. Thereupon, without notice, the Union Bank refused to honour cheques drawn against the £100,000 overdraft which it had guaranteed to the Government. This action of the Union Bank brought matters to a standstill. The banks in Queensland conferred, and agreed to advance a small loan of £15,000 to the Government, provided it would cease all public works and raise a sum of £200,000 by taxation. The real position was that values were too high, and the banks were aiming at deflation. The Government felt that it could not comply with the request of the banks, particularly since they were offering such a small loan, and it was therefore proposed by the Government to issue legal tender notes and Treasury bills. This decision of the Government led to a political crisis. The Governor, when the matter came before him, sided with the banks against the Government, which thereupon resigned, only to be reinstated shortly afterwards. Then the Bank of Queensland failed, and with it all the land-mortgage and investment companies which had been in business since the separation of the Colony from New South Wales. Bankruptcies began to appear, rents were unpaid and the number of unemployed became so large that the Government opened relief camps for them. Then matters began to mend slightly. In September 1866 the 1864 loan was floated at £85. Then an attempt was made to float the third loan of £1,170,950. This realised £87 10*s*. Only £250,000 of it was sold. In April 1867 its price rose to £94, and the rest of the loan

was taken up. This brought the crisis to a close, but it was some time before business conditions returned to normal. In 1872 all three loans were consolidated at 4%.

There is not much to be said by way of comment upon this crisis. Although it was only a local affair, and although it is true that the match which set the gunpowder on fire was the failure of a bank in London, the fact that everything was at once brought to a standstill served to show how ill-founded was the business activity of the new Colony. It is clear that the Government and the speculators were overdoing it, while the effect of the fall in the price of wool was such as to show how dependent the Colony was on the price of that commodity. The crisis showed in miniature all the characteristics of the earlier crisis of 1841–2–3.

The 1893 *Crisis.*

A proper study of the Australian crisis of 1893 involves the possession of two pieces of knowledge. First, what was the state of affairs in the Colonies in 1880 with regard to their assets and liabilities, together with their potentialities, and, secondly, what was the trend of the period from 1880 to 1900? The reason for insisting upon so long a period for study is that, though the crisis lasted only for two months, April and May, these two months were preceded by two distinct warnings—viz. the break of the boom in 1888, and the property crisis in 1892. But the boom of 1888 was preceded by an approach period beginning in 1880, and the period from 1893 to 1900 or to 1902 was the time of reaction, during which, viz. in 1895, there was some reason for thinking that another collapse might take place. The most important period to study is 1880–88, for it was during that period that the conditions leading to 1893 were created, and what we want to know is: how did these conditions come about, how came they to get out of control, and was anything done to prevent their recurrence? How far these questions can be answered will

appear as we go through the evidence and draw our deductions.

We have also to bear in mind, in discussing the Australian crisis, what were the conditions external to Australia—particularly in London.

The condition of affairs in Australia in 1880 cannot be accurately measured, for though we know the size of the population as a whole, we do not know the quantity of wealth in the country, nor do we know the location of the owners of that wealth. We have some idea of the number of banks in existence, but, even where they made returns to their individual Governments, there was no uniformity about such returns, and sometimes they included, sometimes excluded figures for their London offices. What was the efficiency in the production of wheat and wool, the expenditure of public money per head of the population in relation to the interest charge, and other such questions, it is impossible to ascertain, though some estimate of these things may be made. So that for information we are in an unfortunate position at the very beginning of our inquiry. However, during the period 1880–90 the Bankers' Institute was formed, and as early as 1877 the *Australasian Insurance and Banking Record* was established, and these two, together with the work of the State statisticians, notably Hayter in Victoria and Coghlan in New South Wales, did manage to produce something in the way of an orderly account of what was going on, and did present this in a statistical form. There were thirty-three banks in existence in 1880, though all of them were not banks of issue, and a statement of the paid-up capital of twenty-eight of them, which were banks of issue, in 1882, puts their paid-up capital at £15,573,691.[1] The public indebtedness of all the States was £61,327,018, or £27 3*s.* 9*d.* per head of the population.[2] The value of the wool clip in that year was £16,425,000.[3]

[1] *A.I. and B.R.*, April 15th, 1887, page 193.
[2] J. J. Fenton, Victorian State Statistician, before the A. A. A. S., 1892.
[3] *A.I. and B.R.*, Feb. 18th, 1894.

In 1880 the banks allowed 6% interest on fixed deposits, and this rate had ruled during 1878 and 1879. This high rate of interest, coupled with the dull state of trade in Great Britain, led to the formation of finance companies in the United Kingdom. The capital raised by these companies, together with the loans raised by the Governments of the Colonies, brought to the Colonies a sum of £15,000,000. This volume of capital was held by the banks as deposits, and because of the volume of their funds in February 1880, the deposit rate was reduced to 5%, and in July of that year to 4% Then it fell to 3%, and this low figure immediately stopped the flow of capital from the United Kingdom, where the deposit rate was 5%. The effect, in Australia, of the fall in the rate for their deposits was to cause people to transfer their capital to building and similar societies, where the rate of interest was 5%. These institutions proceeded to pay off their overdrafts with the banks, and this reduced both the advances of the banks and their deposits. The transfer of deposits from the banks to the land, building and mortgage companies also had another effect. It made available at 5% funds for land speculation and it " turned the incipient land speculation into a veritable mania."[1] The evidence in support of this contention is that during 1881–82 there was a greater advance in the value of city and suburban property than there had been for ten years. By November of the year 1881 the banks began to feel the demand for accommodation, and in that month the deposit rate was raised to 4% ; in August 1882 it was raised to 5%, and in November to 5½% ; by December it was up to 6%. These high rates again attracted the attention of British capitalists. Turner, in his account of this time, to which reference has already been made in a footnote, advances the following evidence to prove his statement that this volume of capital in Australia had produced a period of

[1] Vide *A.I. and B.R.*, August 1887, H. G. Turner's address printed there : I am indebted to H. G. T. for part of this account of the period 1880–90.

speculation. The aggregate advances of the Australian banks fell from £63,000,000 to £58,000,000 during 1880. During 1881 they increased from £58,000,000 to £71,000,000, and by the end of 1882 to £86,000,000. This was an increase of £28,000,000 upon £58,000,000 in two years, *i.e.* an increase of almost 50%. This, in Turner's opinion, could not possibly represent legitimate business. The general effect upon the business community was that station properties were all sold at double their value, millions of pounds were sunk in sugar plantations in Queensland, while in the cities subdivisional blocks and corner allotments attracted people from the old slow way to riches. Turner estimated that of the £28,000,000 of the advances, not more than £10,000,000 was represented by the discount of mercantile paper. The rate of discount moved from 5% to 8%. By the end of 1882 the banks put on the screw. South Australia was the first of the States to feel the effects of the restriction, which was accompanied by three bad harvests during 1883–84, 1884–85, and 1885–86, by a low price for copper, which was South Australia's main mineral product, and by drought in the interior. Then a series of public frauds occurred, which tended to shake public confidence. H. A. Wood, the public trustee, absconded with £6000 of public money; next, the Secretary of the Permanent Equitable Building Society committed a fraud involving £8000. This was followed by a fraud on the part of the Secretary of the Norwood Building Society, who got away to Germany with an amount almost as large; then came a defalcation committed by the Secretary of the Young Men's Christian Association; and on top of all this came the failure of the Commercial Bank of South Australia, in which the manager, Crooks, and the accountant, Wilson, were involved.[1]

Perhaps the presentation of the following sets of statistics will indicate more clearly than any other method

[1] *A.I. and B.R.*, June 14th, 1886, " The South Australian Crisis," by a South Australian Colonist of forty-three years.

the condition of affairs that had developed. The first set makes a comparison between the years 1871 and 1886, and hence gives some idea of the changes that had taken place in the fifteen years' interval. These figures, unfortunately, include those for New Zealand, though the ratio of New Zealand's figures to those of Australia is so small that their presence makes no difference in principle to the meaning that the figures are designed to convey.

BUSINESS OF THE AUSTRALASIAN BANKS.[1]

	1871.	1886.	Per cent. Increase.
Advances . .	£31,521,000	£109,784,000	284
Assets . . .	42,824,000	129,195,000	201
Liabilities, other than Capital . .	33,527,000	92,540,000	176

The increase in all these figures is considerable, but the increase in the advances calls for particular attention, and we can very profitably occupy ourselves with a closer study of them. For this purpose it is proposed to present the annual figures for the advances and deposits, showing the decreases and the increases, and giving the figures right up to 1891, for the purpose of future reference. It will be seen from an inspection of the figures that the advances increased from 1881 to 1891 by more than £81,000,000; while the deposits increased by some £56,000,000 or so. Assuming that advances create deposits in the same banking system, one wonders where the additional £20,000,000 in advances managed to conceal itself; for apparently it does not reappear in the deposits. The presumption is that it was in the deposits of the building societies, who kept it as deposits and did not re-bank it with the trading banks, *i.e.* it took the form of note liabilities in the assets of the banks. These are the figures:—

[1] *A.I. and B.R.*, April 15th, 1887, page 193.

AUSTRALASIAN ADVANCES COMPARED WITH DEPOSITS.

Date.	Yearly Movement in Advances.	Yearly Increase in Deposits.	Excess Movement in Advances.	Excess Movement in Deposits.
1880	£5,105,518 [1]	£4,124,051		£9,229,569
1881	18,694,574 [2]	7,898,637	£4,796,937	
1882	15,154,885	5,651,565	9,503,320	
1883	5,499,867	2,758,604	2,741,263	
1884	5,825,104	9,019,097		3,193,993
1885	8,889,208	4,848,219	4,040,989	
1886	3,173,474	1,838,957	1,334,517	
1887	4,313,662	7,012,131		2,698,469
1888	13,839,280	7,858,230	5,981,050	
1889	5,593,766	4,230,844	1,362,922	
1890	5,300,067	4,567,265	732,802	
1891	1,888,087	155,019	1,733,068	

(Figures taken from the *A.I. and B.R.*, February 18th, 1892, page 78.)

This increase in general business and in advances was also accompanied by a considerable increase in public borrowings. In 1880 these amounted to £61,327,018, or to £27 3*s.* 9*d.* per head of the population, while in 1889 they had increased to £136,680,958, or to £43 16*s.* 2*d.* per head of the population. In 1880 they had again increased to £143,662,093, or to £45 9*s.* 3*d.* per head of the population. These borrowings were distributed among the States in the following manner [3]:—

DISTRIBUTION OF PUBLIC BORROWING AMONG THE STATES.

State.	Debt.	Amount per Head. £	*s.*	*d.*
Victoria	£41,443,216	36	11	5
New South Wales . .	46,051,449	41	1	0
Queensland . . .	28,105,684	71	17	4
South Australia . . .	20,401,500	63	18	6
Western Australia . .	1,367,444	27	15	10
Tasmania	6,292,800	43	6	3
		Amount per Head.		
Total . . .	£143,662,093	£45	9	3

[1] These figures represent a decrease.
[2] These figures represent an increase.
[3] Paper read by J. J. Fenton, of the Victorian Government Statist Office, before the A. A. A. S., 1892.

On the whole this money had been well borrowed, and Fenton, in his paper, was able to show that 88% of the debt was invested in reproductive works, while £9,933,840 of it was used for purposes which served the needs of the whole of Australia, and not the needs of individual states. It had been spent, for example, on railways and telegraphs.

We reach a stage, then, in our inquiry when we come to realise that the banks had advanced considerable resources to the public; and the colonial governments had also borrowed very heavily. This volume of money naturally generated a feeling of optimism, and this optimism was fanned by the methods of the building and land-mortgage societies. In August 1887 the *Australasian Insurance and Banking Record* commented on the fact that the Victorian Building Societies' Act permitted a society to hold in deposits three times its paid-up capital, and advances from banks to these societies apparently did not count as deposits; what was meant by deposits was those of individuals. The matter was taken to the House of Lords, and the decision reached was as mentioned above.[1] It should be noticed that during these years of credit expansion the paid-up capital of the banks had hardly increased at all. The following figures will illustrate this :—

Date.	Number of Issuing Banks.	Paid-up Capital.	Reserve Profits.	Av. % of Dividends.
				£ s. d.
1882	28	£15,223,089	£6,508,724	10 15 9
1883	28	15,513,691	6,010,662	11 14 3
1884	27	14,829,262	6,551,638	12 5 10
1885	27	15,078,924	6,989,751	12 11 8
1886	26	15,235,831	7,692,175	11 18 11
1887	27	15,866,162	7,692,175	11 1 11
1888	29	16,609,852	7,913,731	11 5 0

[1] *A.I. and B.R.*, October 15th, 1887, for the House of Lords decision.

During 1887 there came to Australia from Great Britain no less than £12,273,000 of capital, and the money was invested in the following ways [1] :—

Government loans . .	£6,350,000
Municipal and Harbours .	1,473,000
Mortgage Companies . .	3,200,000
Other Sources . . .	1,250,000
Total . . .	£12,273,000

In March 1888 the general condition of affairs was indicated by the fact that the value of property in the city of Melbourne since 1887 had risen 50%, suburban property had risen 200% to 300%, while a seat on the Stock Exchange, which a few months before March was worth £300, was sold for £1500.[2] The actual state of the advances of the banks when compared with their deposits in percentages at September 30th, 1888, was as follows :—[3]

Victoria, 117·7%; New South Wales, 117·6%; Queensland, 153·6%; New Zealand, 150·7%; South Australia, 143·2%; Western Australia, 150·7%.

Those who were on the spot in Australia, and those who were competent to judge elsewhere, seem to be agreed that 1888 marks the end of the inflationary period that was set in motion by the decision of the banks in Australia to reduce their deposit rate from 4% to 3% in 1880. In 1888 the banks became extremely cautious in their overdraft policy, and, generally speaking, one would have thought that a period of steadiness, or even of deflation, would have set in. But an event had happened in Great Britain which indirectly influenced the position in Australia. It was just about this time that Lord Goschen brought out his scheme for converting the rate of interest on the British National Debt. The editor of the

[1] *A.I. and B.R.*, January 16th, 1888.
[2] *Ibid.*, March 16th, 1888.
[3] *Ibid.*, April 16th, 1889.

Australasian Insurance and Banking Record, in discussing this project, thought that it meant for Australia that those folk in England holding £150,000,000 of Australian securities knew that no rise in the value of their other securities could be expected, and that in future no colonial loan should be brought out at a rate of interest higher than 3½%.[1] This was the effect of Goschen's scheme upon overseas lenders and upon Governments concerned with the floating of loans. But the scheme had the further effect of leading those folk who wanted money in Australia to imagine that it was to be had in any quantity in the United Kingdom. Thereupon there developed in Great Britain the popularity of what was known as the Australian "Fixed Deposit Receipt." The method of obtaining these was as follows.[2] A colonial agent was employed by the Australian banks at from ⅛% to ¼% commission on the money received from depositors, with an allowance for office and advertising expenses; if the money came in through a sub-agent a double commission was payable; in almost every town of importance in Great Britain someone had a watching brief for some Australian bank. One agent in an advertisement promised to give, in return for 2*s.* 6*d.*, the double security of a deposit receipt combined with an indemnity against loss by means of a policy in one of the new trustee companies. Some of the deposit receipts required three months' notice before the maturity of the deposit.

The effect of cheap money in the United Kingdom, and this careful canvassing for deposits, brought money to Australia at the very time that those who were responsible for the credit policy of the country were trying to bring about deflation. Since there was money available in Great Britain, the only question now was: Who was to have it: the banks or the mortgage and building companies? To answer this question it will be necessary to study the following figures, which show the

[1] *A.I. and B.R.*, April 16th, 1888, page 273.
[2] *Ibid.*, April 16th, 1889.

new issues of capital in London on Australian account for the years 1887, 1888, and 1889[1]:—

Type of Loan.	1887.	1888.	1889.
Government loans	£6,350,000	£9,380,000	£7,692,000
City and harbours	898,000	392,000	729,719
Railways, trams, gas	1,005,000	267,500	1,083,241
Land, mortgage and finance.	4,985,000	2,442,000	1,520,500
Miscellaneous	483,340	140,000	475,000
Banks	375,000	530,000	331,500
Mines	4,700,000	1,797,567	300,000
Total	£18,796,340	£14,949,067	£12,131,960

Though the period of deflation set in after 1888, the fact that more than £12,000,000 found its way to Australia is remarkable. We can see that the bulk of it went in Government loans, with the land and mortgage societies coming second. The banks appear to have had control of very little of it in the form of capital, though they doubtless received much of it as deposits. Even the banks themselves, as a whole, do not seem to have been very sincere in their policy of deflation, though individual ones may have been. This can be seen by studying the following table, giving the proportion of advances to deposits for September 1888, June 1889 and September 1889—that is, for the period immediately following the decision of the banks to deflate.[2]

State.	Sept. 30th, 1888.	June 30th, 1889.	Sept. 30th, 1889.
Victoria	117·7%	122%	119·6%
New South Wales	117·6	123·4	124·6
Queensland	153·6	166·5	174·7
South Australia	143·2	132·1	132·0
Western Australia	150·7	163·7	163·2

Of the States mentioned here only one has seriously contracted its advances, while the State of Victoria has

[1] *A.I. and B.R.*, January 1890.
[2] *Ibid.*, November 16th, 1889.

done so slightly in the last six months. All the advances appear to be dangerously high. Added to this state of affairs was a large excess of imports :—

Date.	Imports. (in £1000)	Exports. (in £1000)	Excess of Imports. (in £1000)
1885	—	—	£10,195
1886	£34,179	£21,700	12,474
1887	29,572	23,421	6,151
1888	36,881	28,900	7,981
1889	37,577	29,553	8,024
		Total excess	£44,825

(vide *Commonwealth Year Book*, No. 3, p. 592.)

Moreover, in the last six months to September 1888 the banks opened forty new branches, and by March 1889 they had opened eighty-six more and by September of that year another forty, making a grand total of 166 for a period of eighteen months. It is impossible to resist the impression, from a consideration of all these statistics, that no serious attempt to deflate had been made since 1888. What is more amazing is that though the official organ of the banks continuously drew attention to the serious state of affairs, and though a Royal Commission on banking was actually sitting during 1887, nothing was done to curtail the advances of the banks, the flow of imports or Government borrowing. One estimate of the situation at the time was that half the population was living on borrowed money.[1]

It will be advantageous to pause, before passing on to the first phase of the big crisis—the collapse in the property market—and study an extremely competent analysis of the financial situation which we have been reviewing, published by the editor of the *Australasian Insurance and Banking Record* in September 1893.[2] He was, in that analysis, concerned mainly with the task of diagnosing the situation which existed prior

[1] Mr. Theo Fink, in a lecture to the Bankers Institute of Australasia, *A.I. and B.R.*, April 18th, 1893.

[2] *A.I. and B.R.*, September 19th, 1893.

to 1891, and his remarks have therefore particular force for our present purpose. He begins by pointing out that from 1873 to 1882 the four colonies affected by the crisis borrowed £36,176,484, and following upon that for the period 1882–91 they borrowed another £77,078,509. The bulk of this was used for railway development and 4572 miles of track were opened. In the first period one mile was opened for every £11,288 borrowed, and in the second period £16,859 per mile was spent, though the cost of materials was cheaper in the second than in the first period.

In 1881 the idea of the business men in Australia was that Victoria should become the workshop of Australia—the manufacturing centre from which the other colonies would draw their supplies, thereby eliminating Great Britain and the United States. Unfortunately the other States of Australia decided to follow the lead given by Victoria, and the result was that there was either stagnation or a decline in the percentage of effort expended in agriculture. The editor advances the following evidence in support of this contention :—

Date.	Area under Cultivation.	% Increase.	Population.	% Increase.	Public Debt.	% Increase.
1873	2,711,112 acres	—	1,670,637	—	£30,245,887	—
1882	5,304,165 „	95	2,256,326	35	66,422,371	119
1891	6,658,491 „	25	3,059,074	35	143,500,880	116

From these figures he argues that whereas a 35% increase in the population for the period 1873–82 produced a 95% increase in the area under cultivation, a second increase in the population of 35% had only increased the area under cultivation by 25%, the percentage increase in the money borrowed being approximately the same. Further, from 1873 to 1882, so it was calculated, the area under cultivation per head of the population increased from 1·62 to 2·25 acres, whereas from 1882 to 1891 the area decreased from 2·25 to 2·18 acres. Moreover, for

every £100 of public indebtedness there was the following acreage under cultivation :—

1873	. . .	8·96 acres
1882	. . .	7·99 „
1891	. . .	4·64 „

Hence it is claimed that whereas the public indebtedness had increased more than four times, the area under cultivation per £100 had decreased by half. If public borrowing had been incurred to open up the country, then there had been a steady decline in the rate at which the country had been opened up.

We turn next, with the editor, to consider the situation in regard to wool and wheat.

The average prices in the Gazette for English wheat were as follows :—

	s.	d.	Percentage of 1873 Prices.
1873–74 . .	56	8	100
1882–83 . .	43	4	75
1889–90 . .	30	9½	55

Next, the area under cultivation and the yield for the four colonies affected by the crisis were :—

	Av. for 1873–74.	Av. for 1882–83.	Av. for 1889–90.
Area in acres . . .	1,324,020	3,111,963	3,306,136
Yield in bushels . .	15,098,576	27,451,731	29,392,819
Total prices at *English Gazette*, av., minus freight and other charges . . .	£5,347,412	£7,432,843	£5,656,580

It is then argued that by taking the average area and the average yield of wheat as 100 in 1873, the index numbers for the other periods are :—

	1873–74.	1882–83.	1889–90.
Area	100	179	135
Value of yield . .	£100	£139	£106

This was the position in regard to wheat. Since 1882–83 there had been a decline both in the area under cultivation and in the total value of the yield.

The figures to illustrate the wool position are as follows for the four Colonies concerned :—

Year.	Price per Bale.	Quantity in Bales.	Total Value.
1873–74	£19¼	500,000	£9,317,000
1882–83	16	781,100	12,496,000
1891–92	12¼	1,442,000	17,664,000

The general indication here is that the price of wool has fallen ; an increase in the production of wool in 1891–92 amounting almost to three times the quantity produced in 1873–74 has not produced a value even twice as large as that of 1872–73.

If the situation in 1873–74 is taken as 100, we have the following position for production and for gross value. It should be noted that the year 1891–92 is taken here in place of 1890–91, which was the last year for which the wheat calculations were made. Why the change was made in calculating the wool position, I do not know, but I do not think that a change in the year makes any real difference to the argument, though there may be some slight difference in the figures.

	1873–74.	1882–83.	1891–92.
Production of wool . .	100	161	289
Gross market value . .	£100	£134	£189

This bears out the contention that though the production has increased almost three-fold, the value has not even doubled.

An attempt is then made to bring into one table a summary of the whole of the argument, by contrasting the situation in regard to population, public indebtedness, the gross market value of wheat and of wool. The year 1873 is taken as a base :—

	1873.	1882.	1891.
Population	100	135	183
Public indebtedness . . .	£100	£219	£474
Gross market value, wheat . .	£100	£139	£106
Gross market value, wool . .	£100	£134	£189

The general conclusion reached by the editor of *The Australasian Insurance and Banking Record* was that the fall in the prices of wool and of wheat was a very serious matter for Australia, and that the difference between the

costs of production and the proceeds of production was being whittled away. Though transport charges had fallen, wages had risen, as also had debt charges. He was inclined to put this situation down to the sterilising effect of Protection, which was forcing economic energy into a channel different from the one which had been prepared for it.

We have now the general economic position of Australia before us for the period 1880–90. We can therefore attempt to reply to the three questions that we asked on page 94. To the first question: How did these conditions come about? we can reply that it was the low rate of interest offered by the banks that diverted the stream of investment into less capable hands than those of the long-established banks; these conditions were intensified by the Act of Parliament which allowed the mortgage and finance companies to receive deposits three times the size of their paid-up capital, while at the same time they were allowed to borrow from the banks. These conditions got out of hand when the borrowers, finding in 1888 that the banks were applying the brakes and restricting credit, discovered that cheap money could be obtained in Great Britain, while at the same time the Governments, the municipalities and the other institutions that were catering for the needs of a diverse population in the capital cities, continued to raise money overseas. Thereupon the banks, or at least some of them, also began to grant considerable accommodation and to reach out after new business by opening new branches. There was no adequate increase in the paid-up capitals of the banks, and the average rate of dividend that was paid remained the same.

In 1890 the chickens began to come home to roost. In December 1889 the Premier Permanent Building Society collapsed. Then early in 1890 the finances of the Argentine got into the hands of an unscrupulous body of men, and this led to a general collapse. This, later on in the year, caused the Baring crisis in London and a loss of £23,000,000 to the public; the House had acted as the

agent of the "gang" in the Argentine. The Rothschilds guaranteed the acceptances of the Barings, and all the other banks, including the Australian banks, combined to put up a guarantee of £17,000,000. These happenings in the Argentine and in London had an indirect effect upon Australia, because some of the financial groups of men operating in Australia were unscrupulous. That is to say there was a certain parallel between Buenos Ayres and Melbourne, while the general alarm created by the Baring crisis aroused people's fears in regard to places similarly situated to the Argentine, with agents, like the Barings, in London. The year 1890 was therefore an anxious one both in London and in Australia. In October 1890 the banks raised the deposit rate from 4% to 5%, and set their faces against any advances at all against real estate. During 1891 only £4,000,000 in investment came from London to Australia. Then came the crash in the property market, which was the forerunner to the banking crash later. Between July 1891 and April 1892 no less than forty institutions connected with mortgage business, land and finance collapsed, involving obligations to the public of £25,000,000.[1] In August 1891 the Bank of Van Diemen's Land went into liquidation, followed in March 1892 by the Mercantile Bank of Australia. But the most famous of all to fail were the Davis Companies, late in 1892, which numbered among their directors members of Parliament, the Speaker of the House of Parliament, and other such people. This property crisis destroyed three types of institution. First, the loosely conducted semi-banking institutions which were engaged in financing speculation in land and shares; secondly, the companies dealing in properties; and thirdly, building societies and cognate institutions. So bad were some of the failures that legal proceedings were instituted in some cases, notably in the case of the "Davis" group. In April 1892, so as to quell the alarm that was felt in Melbourne

[1] Sir Thomas Sutherland before the shareholders of the Bank of Australasia, October 1893.

and Sydney, the Melbourne Associated Banks, thirteen in number, resolved[1] "that the Associated Banks in Melbourne have agreed upon mutually satisfactory conditions upon which they will extend their support to any of their number requiring it."

To the property crisis were added other factors which increased the gloomy condition of affairs in Australia. First, the revelations that came out after the failure of the Mercantile Bank—these were very bad indeed; then, the New Oriental Bank Corporation failed in London, though that portion of its business which was in Australia was quite sound; finally, the attempt of the State of Victoria to float a loan at an issue price of £92 failed. These three factors, when added to the property crisis, involving £25,000,000 of public deposits, together with the state of mind that the Baring crisis had created, kept trade in a dull state and developed apprehensions in the minds of the investors which culminated in the banking situation which arose early in 1893.

In January 1893 the Federal Bank of Australia failed, and on April 5th the Commercial Bank of Australia, Ltd., followed suit. From this moment until May 17th no less than twelve banks failed, involving an amount of £103,315,214. The following is a list of the banks which failed, together with the dates of their suspension :—

LIST OF AUSTRALIAN BANKS WHICH FAILED IN 1893.[2]

Name of Bank.	Date of Suspension.
Commercial Bank of Australia, Ltd.	April 5th
English, Scottish and Australian Chartered Bank	„ 13th
Australian Joint Stock Bank, Ltd.	„ 16th
London Chartered Bank of Australia, Ltd.	„ 22nd
National Bank of Australia, Ltd.	May 1st
Colonial Bank of Australia, Ltd.	„ 6th
Bank of Victoria, Ltd.	„ 10th
Queensland National Bank, Ltd.	„ 15th
Bank of North Queensland, Ltd.	„ 15th
Commercial Banking Co. of Sydney	„ 16th
City of Melbourne Bank, Ltd.	„ 17th
Royal Bank of Queensland, Ltd.	„ 17th

[1] *A.I. and B.R.*, April 18th, 1892. [2] *Ibid.*, May 1893.

If we add to this list the three banks which had already failed, it makes the total of failures fifteen in all, out of the twenty-six banks in existence in Australia.

After remaining closed for a period varying from one month to three months, the twelve banks mentioned in the above list came to some arrangement with their creditors and opened as reconstructed banks, some with changed titles, some with trust accounts, and all of them with reduced assets. The following is a list of the reconstructed banks, together with their dates of re-opening :—

Name of Bank.	Date of Reopening.
Commercial Bank of Australia, Ltd.	May 6th
Colonial Bank of Australia, Ltd.	„ 10th
Australian Joint Stock Bank, Ltd.	June 19th
Commercial Banking Co. of Sydney, Ltd.	„ 19th
Bank of Victoria, Ltd.	„ 19th
City of Melbourne Bank	„ 19th
National Bank of Australasia, Ltd.	„ 20th
Bank of North Queensland, Ltd.	July 19th
Queensland National Bank, Ltd.	Aug. 2nd
Royal Bank of Queensland, Ltd.	„ 7th
English, Scottish and Australian Bank, Ltd.	„ 21st
London Chartered Bank of Australia, Ltd.	„ ?

The total amount of deposits in the banks which suspended payment was £87,000,000, and of this amount £21,000,000 was British money. The suspensions took place as the May term for bank deposit renewals was drawing to a close. Had the banks not suspended when they did, it is almost certain that most of the £21,000,000 would have been withdrawn. The fact that the suspensions took place prior to the close of the May term for renewals had the effect of preventing their withdrawal when that date arrived. Some held the opinion that the Australian banks, knowing that they would lose the British deposits when the May term ended, purposely closed when they did, so as to prevent the withdrawal of these funds. Coghlan, for example, takes this view.[1]

[1] "Labour and Industry in Australia," Vol. III, page 1656.

Whether the date of closing was an accident, or whether it was fixed intentionally with a view to hold the British deposits, or whether it was a purposive accident, it is not possible to say; but the effect of the action of the banks in closing was to prevent the withdrawal of £21,000,000.

Of all the banks operating in Australia at the time of the crisis, only eleven remained open. The names of these banks were :—

Name of Bank.	Nationality of Bank.
Bank of Australasia	English.
Union Bank of Australia, Ltd.	"
Bank of New South Wales	New South Wales.
City Bank of Sydney, Ltd.	" " "
Royal Bank of Australia, Ltd.	Victorian.
Bank of Adelaide	South Australian.
Western Australian Bank	Western Australian.
Commercial Bank of Tasmania, Ltd.	Tasmanian.
National Bank of Tasmania, Ltd.	"

In addition to this list given by the *Australasian Insurance and Banking Record*, there were also :—

Name of Bank.	Nationality of Bank.
The Ballarat Banking Co.	Victorian.
The Land Mortgage Bank of Victoria	"

Very definite attempts were made to avert the crisis, to save individual banks and to confine the crisis within bounds once it had occurred. For example, in 1887 the Federal Bank had much of its funds invested in land; in that year it was decided to separate the land business from the other activities of the bank. This was done by establishing the Federal Building Society. In order to develop the Society a considerable sum was added to the resources of the bank by issuing shares in the Society at a premium. However, the Society soon got into difficulties, and it failed in 1891, whereupon there was a heavy "run" upon the bank itself. The bank then approached two other banks for assistance, but without success. It then approached the Associated Banks, and placed its affairs in their hands. A committee of four, representing four separate banks, examined the affairs of the Federal Bank and found that not only had all its capital been lost, but also a further sum of £250,000. The Associated Banks were in an awkward position, because, though they realised that nothing could be done to save the Federal Bank, its failure would only increase public alarm and make worse a situation that was already bad enough. It was finally decided to allow the Federal Bank to go into liquidation.

The next bank that the Associated Banks tried to save was the Commercial Bank of Australia, Ltd. The beginning of this bank's troubles was the situation in which the Melbourne Permanent Building Company found itself. As the company had a large account with the bank, it went to it for assistance, but this was refused. By March, however, the bank was itself in difficulties. The Victorian Government tried to help it, but without success. Then the bank placed its affairs in the hands of the Associated Banks, but after an inquiry this body decided that nothing could be done, and the bank was forced into the hands of its creditors with a scheme of reconstruction so drastic that it caused a panic among the other banks. The nature of this reconstruction will be discussed when we are considering the causes of the crisis.

The failure of the Commercial Bank of Australia, Ltd., thoroughly alarmed the Victorian Government, and it became anxious about the stability of the National Bank of Australasia, Ltd. The liabilities of this bank were £12,855,987, of which 18% was British money and the remainder was concentrated in Melbourne and Adelaide. On April 29th, a Saturday, the Premier of Victoria received word that the National Bank of Australasia, Ltd., would not open on Monday. Realising that it was too late to save the bank, Paterson, the Premier, hoped to save the general situation. On Sunday, April 30th, he took his Cabinet by special train to the

country residence of the Governor, from where, after a Cabinet meeting had been held, a proclamation was issued declaring a moratorium until May 5th. When this notice appeared on Monday morning, it created consternation. The larger banks, under the leadership of Mr. Finlayson of the Union Bank of Australia, Ltd., decided to ignore the Government's notice, and keep their doors open. This action did much to calm the public mind. In South Australia the failure of the National Bank of Australasia, Ltd., was the culminating point in the crisis. Many of the big businesses closed, discharging their employees. Distress became so acute that the Mayor opened a relief fund.

In Queensland the crisis was complicated by the existence of a drought and by a disagreement between the Government and the Bank of England. In 1892 the advances of all the banks had increased 30%, *i.e.* from £13,000,000 in 1891 to £17,000,000 in 1892. Of this increase the Queensland National Bank was responsible for £2,500,000, and this money had been used mainly for speculation in land. Then the failures and the suspensions began, and these culminated in the failure of the Queensland National Bank, Ltd., on May 15th. This left only three banks open in Queensland—viz. the Bank of New South Wales, the Bank of Australasia and the Union Bank of Australia, Ltd. When the Queensland National Bank, Ltd., closed its doors, it announced that its closure was due to "advices just received from London that all deposits maturing during the next six or eight months will probably be withdrawn by the British depositors, in consequence of the distrust engendered by the failure of so many Australian banks." [1] Meanwhile the Queensland Government had been working out plans to try to save the general situation. On May 30th it introduced four Bills, and they became law on June 2nd. The first of these Bills was an Act to recall all bank notes from circulation. The second authorised the issue of

[1] Quoted by Coghlan, "Labour and Industry in Australia," Vol. III, page 1781.

Treasury Bills for ten years, with interest at 4%. The third Act gave authority for the issue of notes by the Government, and the fourth required the banks to pay their notes on presentation with Treasury Notes.

In New South Wales the situation was met by making bank notes legal tender for six months.

We are now in a position to sum up the history of the crisis in a general way. From 1888 to 1893 of the twenty-six banks operating in Australia fifteen closed their doors and eleven remained open. These figures exclude the Bank of New Zealand, which was operating in Australia, and the Oriental Banking Corporation, which was a London bank with business mainly in the East, but had two branches in Australia; nor do they include the Comptoir National d'Escompte de Paris, which had two branches in Australia. Of the fifteen that closed their doors, three did not reopen them; the remaining twelve reconstructed themselves and reopened for business. Forty-one financial, mortgage and building societies collapsed. The worst phase of the crisis was in April and May, during which time twelve of the fifteen banks collapsed. The total losses involved over the period of five years, but mainly during the months of April and May 1893, were approximately £133,000,000.[1] By 1894 there was a total decrease in Australian deposits of £17,476,337, while the capital resources of the banks bore a proportion of 19·04% to liabilities, as compared with 15·4% on March 31st, 1893. According to Coghlan, this increase in the percentage of capital to liabilities was due to the capital called up during the crisis, amounting in all to about £6,000,000.[2] It would also be due to the fact that every advance repaid would lead to a corresponding reduction in deposits. Mr. Edward Hamilton, Chairman of Directors of the Bank of Australasia, in trying to explain the extent of the crisis to his shareholders by making a comparison with a similar situation were it to occur in England, on October 4th,

[1] *A.I. and B.R.*, May 1898.
[2] "Labour and Industry in Australia," Vol. III, page 1656.

1894, said that it would have been as if £340,000,000 of the existing English deposits in English banks (total £680,000,000) had been withdrawn and locked up for from one to fourteen years. By this locking-up process he was referring to the reconstruction schemes, which would not liquidate themselves for periods ranging from one to fourteen years.

Before going on to set out the story of the crisis in the form of statistics, it would perhaps help to clarify the situation if it were set out in chronological order in the form of a time-chart, covering the periods of the crisis and the years just prior to it.

Time Chart

Date.	Event.
1883.	Land values become speculative.
1885.	Land boom breaks in South Australia. Failure of the Bank of South Australia.
1886. 1887. 1888.	Speculation in silver shares and suburban land in New South Wales and Victoria. Collapse of the land boom in New South Wales and Victoria.
1889.	Properties begin to come into the hands of the banks. Premium Permanent Building Society collapses.
1890.	The Argentine crisis. The Baring crisis. October. Interest on deposits raised from 4% to 5%. Banks intimate their intention of not advancing against real estate.
1891, July to 1892, August.	Bank of Van Diemen's Land collapses. Forty-one financial societies collapse. £4,000,000 in British deposits come to Australia.
1893.	January. Federal Bank fails. April 15th to May 17th. Twelve banks fail. June to August. Twelve banks reopen.

We next come to the task of examining the statistics which have a bearing upon the crisis. These will consist of the following sets of figures :—

(*a*) Growth of deposits, advances and of British deposits from 1871 to 1892.

(*b*) The increases and decreases and progressive totals of the bank advances from 1881 to 1889.

(*c*) The totals of bank deposits for ten of the larger banks, together with the quantity of British deposits and its percentage of the total of deposits.

(*d*) The number of branches possessed by the twelve banks which failed, statistics being given for both before and after the crisis.

(*e*) A miscellaneous set of figures consisting of the fall in export and import prices, 1884–89 compared with 1889–93; the respective exports and imports for the period 1880–93; decline in the revenue of the States affected by the crisis.

Table A

Growth of Deposits, Advances and British Deposits from 1871 to 1892

Year.	Deposits.	British Deposits.	Advances.
1871	£25,000,000	£11,000,000	£27,000,000
1881	61,000,000	Not stated.	58,000,000
1891	93,000,000	37,000,000	113,000,000
1892	153,000,000	39,000,000	Not stated.

These figures indicate, in the first place, a steady growth in deposits up to 1891, *i.e.* for the ten-year periods; and there is an enormous growth during the year 1892. Secondly, there is a steady increase in the volume of British deposits. Thirdly, there is a 100% increase in the advances in each decade, and in this connection it should be noticed that, both in 1871 and 1891, the advances were larger than the deposits, by £2,000,000 in 1871 and by £20,000,000 in 1891.

The next table indicates the increase in the advances

each year, together with the progressive totals of increases.[1]

TABLE B

Year.	Increase on Previous Total.	Progressive Total.
1881	Total of advances.	£58,000,000
1881	£11,000,000	69,000,000
1882	15,000,000	84,000,000
1883	5,500,000	89,500,000
1884	5,500,000	95,000,000
1885	9,000,000	104,000,000
1886	3,000,000	107,000,000
1887	4,500,000	111,500,000
1888	15,000,000	126,500,000
1889	6,000,000	132,500,000
1890	5,000,000	137,000,000
1891	2,000,000	139,000,000

(*Note.*—Details for hundreds and thousands have been omitted; figures are approximate.)

These figures bear out the statement already made that the banks were endeavouring to restrict advances after 1888, and that the period of the boom ended at that date; advances were still made in large proportions, but there was a definite slowing up in the volume. The big increases in the earlier years indicate the effect of the use of speculation.

A useful set of figures is that indicating the volume of deposits in ten of the most important banks in 1892; accompanying these figures are those of the British deposits for each bank. This is shown in Table C. The special value of this table will be seen when we come to consider the claim that the 1893 crisis was due to the withdrawal of British deposits from Australia.

[1] Coghlan, "Labour and Industry in Australia," Vol. III, pages 1641–42, for column 2; column 3 is calculated from column 2.

TABLE C[1]

Name of Bank.	Deposits.	British Deposits.	Percentage.
Queensland National	£8,500,000	£4,400,000	52·4
London Chartered	6,600,000	3,300,000	50
Commercial Bank of Australia	11,900,000	5,600,000	47
Australian Joint Stock	10,800,000	4,000,000	37
Union Bank of Australia	17,894,000	5,100,000	28·5
Bank of Australasia	15,000,000	3,000,000	15
National Bank of Australia	8,972,000	1,615,000	18
English, Scottish and Australian	5,625,000	900,000	16
Bank of New South Wales	21,000,000	2,100,000	10
Commercial Banking Co. of Sydney	11,500,000	500,000	4·3
Total	£117,791,000	£30,515,000	av. 27·82

It is interesting to notice in connection with this table that the two big English banks—viz. the Bank of Australasia and the Union Bank of Australia, Ltd.—obtain most of their deposits from Australia, and not from England, and are eighth and fifth respectively on the list of banks with percentages of British capital; while Australian banks occupy the first and third places as users of British deposits. The two banks using the least British capital are both typical Australian banks, the Bank of New South Wales and the Commercial Banking Co. of Sydney.

Another set of statistics which throws considerable light on the effect which the crisis had upon the banks is that which sets out the number of the branches possessed by the banks which failed, the figures being for both before and after the suspension of payments. Prior to the suspension of payments by the banks, many of them were supporting branches beyond their means, and the

[1] Compiled from part of the 1892 census figures, quoted by Coghlan, "Labour and Industry in Australia," Vol. III, page 1649. Some of my figures in column 1 are deduced from Coghlan's list.—A. L. G. M.

crisis had the effect of eliminating those branches which were not necessary. The table is as follows [1] :—

TABLE D

Name of Bank.	Branches March, 1893.	Branches, Dec., 1894.	Decrease.
Australian Joint Stock	203	148	55
National Bank of Australasia	153	121	32
Commercial Banking Co. of Sydney	149	120	29
Colonial Bank of Australia	82	59	23
Commercial Bank of Australia	108	88	20
Queensland National	67	49	18
English, Scottish and Australian Chartered	94	79	15
London Chartered Bank of Australia	55	48	7
Bank of Victoria, Ltd.	71	65	6
Royal Bank of Queensland	21	17	4
Bank of North Queensland	13	9	4
City of Melbourne	6	5	1
Total	1022	808	214

The decrease in the number of branches is from 1022 to 808—that is, 214, or approximately 20%. It is interesting to notice that the banks standing at the head of the list were those banks which showed in their balance sheets that they were seeking business, and hence were inclined to have more branches than was absolutely necessary at the time.

We now come to a miscellaneous set of figures under four heads :—

The first set is a comparison of isolated years for export and import prices.

1889 compared with 1884, export prices fell 15%.
1893 ,, ,, 1889, ,, ,, fell 25%.
1889 ,, ,, 1884, import prices fell 6%.
1893 ,, ,, 1889, ,, ,, fell 13%.

The meaning of these figures is that the exports for the period 1884–89 could not pay for the imports over

[1] *A.I. and B.R.*, 1895.

the same period, and, since export prices fell 15% and import prices fell only 6%, there would have to be borrowing in London. In the second period the same state of affairs persists: from 1889 to 1893 export prices, which had fallen 25%, would have to pay for imports, which had declined only 13%. This would mean that, assuming both Australia and Great Britain purchased the same quantities of materials as before, Australia's claims to money in London would be less than her debts in the same place. It would also follow that advances made by the banks against values for 1884–89 were not as well secured as they had been, because export prices had declined 15%; by 1893 the security was considerably reduced, since prices had fallen 25%. We can perhaps best judge the import and export situation by considering the following figures. These figures show the imports and exports for each year from 1880 to 1893, together with the unfavourable balance and the accumulated unfavourable balance.[1]

Date.	Imports (in £1000).	Exports (in £1000).	Difference.	Accumulated Unfavourable Balance.
1880	22,939	27,255	+ 4,316	+ 4,316
1881	29,067	27,528	− 1,539	+ 2,777
1882	36,103	27,313	− 8,790	− 6,013
1883	35,454	30,058	− 5,396	−11,409
1884	36,988	28,708	− 8,280	−19,689
1885	36,862	26,667	−10,195	−29,884
1886	34,179	21,700	−12,479	−42,363
1887	29,572	23,421	− 6,151	−48,514
1888	36,881	28,900	− 7,981	−56,495
1889	37,577	29,553	− 8,024	−64,519
1890	35,168	29,321	− 5,847	−70,366
1891	37,711	36,043	− 1,668	−72,034
1892	30,107	33,370	+ 3,263	−68,771
1893	23,765	30,225	+ 6,460	−62,771

Explanatory note.—The figures in the column headed " Accumulated unfavourable balance " are inserted only for the purpose of illustration.

[1] *Commonwealth Year Book No.* 3, page 592, for columns 1 and 2.

It will be noticed that in 1882 Australia began to have an unfavourable balance of trade, a condition of affairs which existed until 1892, when the balance became favourable again. The accumulated unfavourable balances, which are shown in the last column, were offset by borrowings in London—£100,000,000 being raised there between the years 1881 and 1891. These loan funds would stand to the credit of the Australian banks in London. In Australia the banks would be faced with the task of financing the increasing volume of exports, an increase which began in 1887, as the result of the deflation policy of the banks, and continued until 1891. This increasing activity of the farmers placed the banks under the obligation of advancing funds to primary producers, and would thereby place an additional strain upon the advances of the banks until such time as these claims might be offset in London. This strain would have been less in 1892–93 than in previous years, but before the claims of this year could be offset in London the crisis had occurred.

To the difficulty of financing exports the following state of affairs was added. The collective revenues of the States affected by the crisis declined in 1893 from £24,000,000 to £21,000,000 without any reduction in expenditure. Shortage of funds would send the Governments to the banks for temporary accommodation until such time as further revenue could be collected, and this would add to the already very great strain that the banks were called upon to bear.

We now have before us the statistical detail relevant to the crisis in some detail, and our problem is to get the meaning out of it. From Table A we see that from 1871 to 1891 the total of deposits increased approximately four times, while from 1891 to 1892 the increase was 64%. British deposits increased three-fold to 1891, but from 1891 to 1892 they increased only about 6%, as contrasted with a 64% increase generally for deposits. From 1871 to 1891 advances increased five-fold, but since a policy of credit restriction was in operation after 1889 we may

conclude that there was not much increase in these after that date, and this is precisely what the figures reveal. From Table B we can see the expansion of advances borne out in the annual figures from 1881 to 1891. Table C confirms Table A with reference to the proportion of total deposits which were British. Then the miscellaneous tables show the decline in prices, and the gradual expansion in the exports, and the unfavourable balance of trade till it reaches £62,771,000 in 1893. From the 12% decline in Government revenue we may infer that some assistance was being sought by the Governments; while the deduction that credit was being used to support branch expansion and competition is borne out by the figures in Table D, which shows a decline of 20% in branch expansion when the crisis is over.

Hence the story revealed by the statistics is that up to 1891 advances were expanding faster than deposits; then came a check to advances; but export prices had declined 25% by 1893 since 1890, so that advances made against exports in 1890, 1891 and 1892 could not be met by export prices unless a margin of up to 25% were allowed by the banks in making the advances. Hence we may assume that a proportion of the advances would be outstanding. These could be offset by calling up capital, and, as a matter of fact, £7,000,000 was called up[1]; but probably the Governments would be requiring advances up to £3,000,000 to make up the 12% deficit in the budgets.

In comparing the position revealed by the statistics with that presented by a chronological statement of the facts, we find that the general drift is the same. We are therefore in a position to begin our search for the causes. The literature of the period is full of explanations advanced by self-appointed financial moralists. For example, it was urged that the cause of the crisis was the raid conducted by British depositors, who, thoroughly alarmed by the Baring and Argentine crises in 1890,

[1] Mr. Edward Hamilton's speech, October 1894, before the shareholders of the Bank of Australasia.

feared a similar collapse in Australian investments. Coghlan argues that the withdrawal of Australian deposits would simply mean that the withdrawn deposits would be placed in another bank, so that really the withdrawal of Australian deposits was only a series of cross-entries in the books of the banks. Hence, as a result of this type of withdrawal, there could not possibly be any crisis. Therefore, since the only other type of deposit was the British deposit, it was the scramble for British deposits that was responsible for the crisis. Let us examine this contention. What was the magnitude of the British deposits? From 25% to 28% of the total deposits. But it is unlikely that 25% of the deposits could wield so great an influence, though it is true that the Queensland National Bank closed its doors because of the expected rush of British depositors. But 52·4% of this bank's deposits was British money, and it may be pleaded that this was a special case; that what was true of this bank was not true of the others. The British depositors would not rush the banks in Australia; on the contrary, they would want their money in London. Now had the Australian banks funds in London out of which to pay the British depositors? If the import and export situation did not allow this, were there any other funds, such as Government borrowings, from which these payments might be made, or was there a flow of gold or a contraction of credit in Australia? Coghlan omits to show us what was the position in regard to the balance of trade, the extent of Government borrowings, the size of the flow of gold—if any—and the credit position in Australia; therefore his case, as he shows it, falls to the ground. Now the question is whether his case as it might have been shown falls to the ground. Clearly there was an adverse balance of £72,034,000, so that there were no claims arising here which could meet the demand for the withdrawal of £30,000,000 of British deposits. It has not been possible to find out exactly what funds the Australian State Governments had accumulated in London, though we do know that between

1881 and 1891 £100,000,000 was raised in London by Australia. These funds would be used to offset the unfavourable trade balance. Since the total of the annual shortage of exports compared with imports during the period 1882–91 was £72,034,000, after which date exports were in excess of imports, it would appear that there were funds in London approximating to £30,000,000, which was the amount of the deposits for which the Australian banks were liable to British depositors. Assuming that there were no other factors to influence the situation, we may conclude that there were sufficient funds in London to meet almost the whole volume of British deposits had that demand been made. But there is no clear evidence that such a demand was made, or that the banks knew that it was going to be made. The official organ of the Australian banks was quite definite on the point, for the editor repudiated the idea that it was fear of the withdrawal of the British deposits that made the Australian banks suspend payment.[1] He puts the cause down to something quite different, which we shall discuss in a moment.

Another suggested cause, put forward in all good faith, was "the sterilising effect of Protection" upon Australia's productive industries. There may be an element of truth in this. It will be remembered that this cause was advanced by the editor of the *Australasian Insurance and Banking Record* (see page 108). The development of Protection-born industries undoubtedly increased the industrial population of places like Melbourne, and this increase would lead to an expansion of the demand for land and houses. Thus in two ways the banks would be called on to render help: first, in order to finance the development of secondary industries, and secondly, to finance house-building and land speculation. It is also conceivable that from both of these sources the demand for money could have been so great that it would lead to over-trading and hence, ultimately, to a crisis. But it is also necessary to bear in mind that the same

[1] *A.I. and B.R.*, May 10th, 1894.

characteristics which appeared in protectionist Victoria also appeared in free trade New South Wales. That being the case, we cannot affirm that Protection was responsible for the crisis. Nor can we affirm that Protection developed secondary industry and retarded primary industry. Protection would do this, and, in fact, has done this since 1900, when Australia as a whole accepted Protection as a national tariff policy; but this process did not set in till after 1908, and its effects have not manifested themselves seriously till after the war. Since Protection was not a national policy in 1893, but only a policy—and a fairly recent policy—of one or two States, it could not have had such an overwhelming effect at that time. Nevertheless, it must not be forgotten that after 1880 and during the next decade there was a general decline in primary production and an increase in population and public indebtedness. The general argument put forward by the editor of the *Australasian Insurance and Banking Record*, to which reference has been made, would appear to be sound, and the additional capital which came to the Colonies did not result in increased efficiency in primary production. But it cannot be said that Protection was the cause of this decline in the production of wealth. There were causes antecedent to the development of Protection in Victoria, such as the closing down of mines on the gold-fields setting free an industrial population, the low rate of interest on bank deposits leading to the transfer of wealth from the banks elsewhere, the fall in the price of wheat—all or any of these factors might have led entrepreneurs and others to realise that there was more money to be made in secondary industry than in primary industry. Protection might follow as a safeguard for the infant industries that had been set up, but because such a policy did develop, and so helped to increase investment in the cities rather than in "broad acres," we cannot logically argue that it caused the crisis. It may have hastened a process that was bound sooner or later to have brought about a crisis. More than this cannot be said.

A third criticism advanced at the time was that Australian finance had been "blown upon" by the Baring crisis. What precisely is meant here is not clear, but, if we accept the analogy of meat being "blown" by flies, then it is argued that the Baring crisis had infected the body of Australian finance with a germ which ultimately caused that body to decay. The essential quality of an analogy is that the two things compared shall agree in every essential. Just how it can be shown that the Baring crisis infected Australian finance is not clear; still less is it clear that this infection caused the crisis of 1893. We can agree that the Baring crisis did create psychological conditions in the investing world in Great Britain which made folk apprehensive about the safety of Australian investments; and this apprehension might conceivably spread to Australia and cause a "run" upon the banks. But even if this were so, the creation of a "run" upon the banks would not be a crisis; for a crisis to arise it would be necessary for the Australian banks to be unable to meet the "run." The influence of the Baring crisis does not account for the financial condition of the banks in Australia, and for this reason we must reject it as a complete explanation of the crisis, though doubtless it was an important factor.

There is, then, an element of truth in all these three contentions, but the cause of the crisis lies deeper than trade policy or psychological attitude, and it lies further back than 1890. We have to ask ourselves several questions before we can find the cause. How came the banks to restrict credit in 1889? How came they to be over-advanced in 1888? Why was land selling at ten times its value in 1881 between 1892 and 1893? How was it possible for twenty-six banks to operate in 1893 on £150,000,000 of deposits and a population of 2,000,000, when in 1930 fifteen banks require £400,000,000 of deposits and a population of 6,000,000? Why was it that a decline in export prices, and particularly in the price of wool, should have been followed by such disastrous consequences a few months later? And finally,

why, amid similar conditions, did nine banks not fail, while a larger number did? It is in the answer to these questions that the solution which we are seeking may be found.

In 1889 the banks restricted credit because, under a gold standard, when the advances of a banking system get beyond a certain ratio of deposits to gold, determined by experience, it is unsafe to continue to advance. Why, then, were the Australian banks beyond their margin of safety in 1888? Because land and other values were at such a level that considerable profits could be earned by financing them; in fact, they were so high that they attracted not only a large number of banks, but also finance and building societies. The high price of everything, and particularly of land, would appear, then, to be the cause. But why were values so high? The answer to this question takes us back to 1881. In that year improved industrial conditions, which followed the gold discoveries, and which were accompanied by an increase in the population, developed the possibility of housing in the suburbs of the capital cities. This led to the formation of building and land mortgage societies, which were able to secure cheap money, since the Australian banks were offering only 3% for deposits, and the Goschen conversion scheme in London made available British money at a low rate of interest. These societies bought up large suburban estates cheaply, cut them up and sold them at a high figure. The money for buying these estates was obtained by taking deposits at a higher rate of interest than the banks were offering. When this source of supply dried up, deposits were sought in Great Britain. There were people with a need for land and houses and with the effective demand for satisfying that need. This called forth the capital to develop the means of satisfying those needs, and, since the needs still persisted, other sources of capital supply had to be sought elsewhere. But since in modern economic society the needs of people have to be met ahead of their actual demand, so it was that the needs of people wanting houses

and land were met ahead of demand; and this process went on till in the period 1883–87 people were merely buying land and houses for the sake of the profit which was involved; and in this activity they were supported by the banks. By 1887 the price of land was absurdly high, so much so that the banks, which had up till that date been supporting the boom, refused to advance against real estate.

But land was not the only commodity that attracted people's money. In 1886 silver was discovered at Broken Hill, and a considerable amount of money was advanced for the purpose of abstracting the ore. Very soon a brisk business in silver shares grew up, and, later, this form of speculation spread to every other type of mining share. By 1887 the whole financial situation in relation to mining became unsafe, and finally the mining share market collapsed in 1891. During 1886, 1887 and 1888 the banks had financed this speculation in mining shares, but in 1889 they grew cautious, and restricted their advances in this direction. All these facts answer our question why it was that the value of land and of prices generally was so high. The productive forces organised to meet the real demand for houses, land and silver got out of hand, and production, instead of being carried on to meet real needs, was carried on for speculative purposes. This was where an intelligent banking policy in the hands of resolute men might have stepped in and put an end to a dangerous situation. The level of prices produced by the process of inflation, which had set in after 1883, concealed the real position from the business community. The rapid development of branches of the banks, each branch in competition with the other, aided the expansion of credit and hid the real financial situation from the average citizen.

But there was another factor at work. In 1860 the population of Australia was 1,145,000 people. Thirty years later it had grown to 2,000,000. In response to the growth of the population, and to the expansion of business activity, the Governments of the States had built rail-

ways, and erected post offices and other public buildings. To finance these public works, the various Governments had borrowed money in London, £100,000,000 being spent by them between 1881 and 1891. By this date the programmes were completed. These sums were accumulated in London and were used to pay for the excess imports which streamed into Australia, while wages and other payments were made out of the sums advanced by the banks in Australia to the State Governments. In 1891 the interest bill upon Government loans was £7,000,000, of which 42%—say, £3,000,000—was paid out of taxation. The activity generated by this programme of public works gave a false sense of security, while the money payments which were distributed in the form of wages as the railways were laid down and the buildings were put up added to the general inflation. All authorities who discuss the crisis are agreed that this programme of public works was premature, that too much building and development was crowded into too short a space of time, and that much of the work was superficial in character and did not represent permanent needs. Moreover, the sudden cessation of the programme, costing on an average £10,000,000 a year, would be bound to interfere with a volume of business activity that had gone on for ten years.

So far we have been considering internal factors. The imports of Australia, the interest on her public debt and other borrowings had all to be met either out of the price of exported wool, wheat, meat and metals, or else out of borrowed money. High prices for these exports meant that the import bill could be easily met; low prices that the bill was not so easy to pay. And it has to be borne in mind that in the production of wool and wheat Australia had a quite unusual advantage. As a consequence, the margin between the cost of production and prices was always a wide one. This wide margin made provision for quite a number of eventualities which may have been overlooked in allowing for the ordinary risks of trade. Moreover, it is customary for the banks to make advances

to primary producers once their produce has been placed on board the steamers at the Australian ports, but the advances are always made in relation to the prices which it it expected that the produce will fetch. Hence, big falls in prices are a serious matter for the banks, in addition to the primary producer. In 1886 there was a decline in export prices, in 1889 there was a further decline of 15%, while by 1893 there was a further decline of 25%; wool, the commodity upon which everything depended, fell in value 16% in 1893, when compared with 1889.[1] The banks, which had advanced money to farmers and pastoralists in the expectation of reasonable values, found that their hopes were not realised, and they either had to "carry" the primary producers until the following year, or foreclose. The latter policy merely threw rapidly depreciating property on their hands.

Such a variety of activities and possibilities as those that have just been described require a concentration of resources and a unanimity of policy, together with strong second lines of defence. This was precisely what the Australian banking system did not possess. Twenty-six banks were offering facilities to two millions of people, and these banks were struggling for the possession of £150,000,000 of deposits. This gave each bank an average of just under £6,000,000. If we assume that their advances were equal to their deposits, and that they were charging 7% for overdrafts while they were paying 3% for fixed deposits, we can see that the margin was not very wide—about £250,000 for each bank. Add to this the demand of the sixty mortgage, land and building societies—all of which would be pursuing a separate financial policy—which were offering higher rates for deposits than the banks. It can be seen that the field for profit for the twenty-six banks was too small. What happened was that the weaker banks increased their advances beyond the margin of safety and opened new branches, with the object of gaining further business.

[1] Sir Thomas Sutherland's speech of October 1893 to the shareholders of the Bank of Australasia.

This activity only increased their expenses. The stronger banks followed suit, and entered the same areas, thereby reducing the volume of deposits available for each bank. Then, if the price of wool were to fall or the Governments were to require accommodation till taxation fell due, or if there were loans to be raised, the weaker banks would be caught unprepared. Their failure would set people wondering about the stability of the other banks, and in this manner the alarm would spread. An examination of the position of the twelve banks which failed and of the ones which did not fail reveals that the former were over-advanced without the necessary defences in case of emergency, such as heavy reserves, bank premises written down, a revaluation of all stocks and investments, while those that did not fail had provided the necessary safeguards. In this connection it may be of interest to show how one of the banks, which did not fail, prepared itself for the crisis, and how another, which did not fail, met the crisis when it arose. The former, the Union Bank of Australia, Ltd., made heavy additions to reserves during the years 1883–93; then a special reserve was created to cope with the possibility of a fall in the price of colonial stocks, and finally its dividend was lowered. Its officers were then in a position to go out vigorously after new business without any fear of straining its resources. To show the way in which the crisis was actually met once it had begun, we can examine the procedure of the Bank of Australasia. It possessed about £18,000,000 of deposits. The extent of the demand by clients who "rushed" the bank was £3,750,000, or about 20% of the deposits. What the bank did was to call in overdrafts to the extent of £2,320,000, and the remaining amount was met by payments in gold. Then, in case the "run" continued, gold was shipped from London for the purpose of strengthening the resources of the bank in Australia. Even after the payments mentioned had been made, the bank still possessed 30% of its liabilities in coin, and, since the total demand was only 20% of its liabilities, it still had plenty of resources in hand.

We are now in a position to set out the cause of the crisis. Coghlan, notwithstanding the fact that he thought that the British depositors were responsible for the crisis, has a very just summary of the whole situation. He writes as follows [1]:—

"A study of the financial history of Australia from 1872 to 1893 shows that the causes of the crisis were deeply rooted in the middle part of the period, which produced a thoroughly unsound condition of business and did much to justify the distrust and panic which culminated in 1893."

But we can be more explicit than this. It would appear that the root cause was the existence of too many banks, organised in such a way that there was no control of their credit policy. The increase in population and the discovery of silver provided the occasion for the expansion of credit, and credit expansion made possible speculation and Government borrowing. The psychological conditions created by the Baring and the Argentine crises, added to the fears occasioned by the fall in the price of wool, were an irritant to a disease that was already well established. But even to this finding it is necessary to make an addition. That the banking situation was unsafe, no one, competent to judge, doubted. For three years the Associated Banks had been working for deflation, and this had produced the property crisis in 1892. It was thought that after that crisis all that was required was that the banks should hang on, provided nothing should happen to stir the fears of depositors unnecessarily. Then, according to the *Australasian Insurance and Banking Record*, something did happen:—

"The decision of the Commercial Bank of Australia, Ltd., to apply to the Court, under provisions of an Act passed in Victoria as late as December 1st, 1892 (an Act which, in its variation from the English Act of 1870, opens the way for grave abuses of the law of debtor and creditor as understood throughout the greater part of the world), to compel depositors to capitalise £3,000,000 of their money, came as a clap of thunder, terrifying depositors in

[1] "Labour and Industry in Australia," Vol. III, page 1633.

other institutions . . . but the drastic scheme of reconstruction adopted by the directors naturally weakened other banks, especially as the fickle-minded public discovered that the Commercial Bank was henceforward to be one of the strongest banks in the world. Reconstruction was practically forced upon the banks. . . ."[1]

The scheme of reconstruction referred to in the above quotation embraced "the calling up of the subscribed capital, the conversion of about one-fifth of the entire deposit liabilities into preference shares, the immediate release of current account balances under £100 and an extension of time for the repayment of the remainder, spread over some years at current rates of interest."[2] So that, if it was the period 1880–91 that stored up the gunpowder, it was the announcement of the reconstruction scheme that lit the match.

We must now look at some of the forms of reconstruction which were adopted by the banks. The fact that twelve banks had to suspend payment did not mean that all of them were completely unsound. It was simply a question of cutting out the dead wood and of allowing the banks to re-establish themselves by the process of natural growth, provided that nothing was allowed to drain away their strength in the meantime. The problem was, how could the creditors be held at arm's length till the banks were on their feet, and the schemes of reconstruction or of re-arrangement was the method adopted. The following represent the essential points only of some of the most characteristic of the schemes of arrangement.

The Commercial Banking Company of Sydney.

1. A sum of £65,296 was taken from reserves and was utilised for the purpose of establishing an Officers' Fidelity Fund; £36,011 was used as a reserve for bad or doubtful debts, £24,285 for reconstruction expenses.

[1] *A.I. and B.R.*, May 19th, 1893, page 293.
[2] *Ibid.*, December 20th, 1904.

2. A comparative statement of the position of the bank prior to and after the crisis is as follows:—

	January 1893.	September 1893.
Profit	£94,489	£58,081
Gold and bullion . .	1,702,511	1,551,752
Advances	11,016,572	9,863,736
Deposits	11,444,743	10,560,962
Reserves	830,000	1,000,000

3. £400,000 in capital was called up.
4. All current accounts were freed as soon as possible, and after these the fixed deposits.

It can be seen from an inspection of this scheme that the bank was not really in a very serious position, and it is difficult to resist the impression that it need not have suspended payment at all.

The Bank of Victoria, Ltd.

1. No capital was written off.
2. The reserves of the bank were held in suspense.
3. Shares of two types were created for the benefit of shareholders and creditors: (*a*) preference shares totalling £416,760, on which a regular dividend of 5% was paid, and (*b*) ordinary shares totalling £765,219, on which dividends were paid until 1895.
4. A call of £2 10*s.* on ordinary shares was made.
5. After 1895 ordinary shareholders received no dividends, and accumulated profits were devoted to the release of deferred deposits.

The English, Scottish and Australian Chartered Bank.

As compensation to the creditors of the bank three types of stock were created:—

1. Debenture stock totalling £983,547 and earning 4% interest.
2. Preferred inscribed stock totalling £889,419 and earning 3%.

Both of these stocks were permanent stocks.

3. Deferred inscribed stock totalling £928,296 to be repaid out of profits. It was not a perpetual stock. Its owners had the right of electing two directors as long as this stock remained over £467,500.

Australian Joint Stock Bank.

This bank gave its depositors a guarantee to begin the repayment of deposits in 1897, paying 4½% in the meantime. It also accepted inscribed deposits. In 1895 this arrangement had to be revised, since the bank was not in a position to honour its guarantee.

The Colonial Bank of Australia, Ltd.

1. £100,000 of reserves was placed to a special Contingency Fund.
2. The depositors received deferred receipts bearing interest.

This arrangement had to be revised in 1895.

National Bank of Australasia, Ltd.

Deferred deposits receipts, bearing interest, were created, and they were paid off in instalments.

The Royal Bank of Queensland, Ltd.

1. The capital of the bank was written down by £75,000.
2. There was a call of £2 10*s.* per share.
3. Holders of fixed deposits received debentures or negotiable receipts repayable over five, six, seven or eight years at 4% interest.
4. Current account-holders of less than £50 were paid off at once.
5. Current account-holders of more than £50 were paid in four instalments, with interest at 3%.

The Bank of North Queensland, Ltd.

1. £10 shares (£5 paid) were written down to £2.
2. £1 5*s.* per share was called up.
3. Depositors were repaid in instalments over a period of years.

A perusal of the terms of these schemes of reconstruction indicates that the essential conditions of all of the schemes were:—

1. The freeing of current accounts at once, or at least their recognition as a first charge on the bank.
2. The repayment of fixed deposits in instalments with interest at varying rates.
3. The writing down of capital.
4. The calling up of the reserve liability of the shareholders.
5. The suspension of dividend payments to shareholders until the banks were free of all obligations.
6. Various arrangements in regard to the creation of different types of stock.

One interesting fact about the crisis was the rapidity with which Australia recovered from its effects; it appears to have been a financial crisis rather than an industrial or a commercial one. Mr. Edward Hamilton, in discussing this aspect of the crisis when addressing his shareholders in London in October 1894,[1] referred to the fact that no commercial disaster followed the banking crisis. The banks quickly reconstructed and opened for business once again. The Australian Governments met the situation with courage and energy, increasing taxation to make good deficits, while all the shareholders paid up the calls which were made upon them. The effect of this was at once seen in the restoration of Australia's credit by the success of the Victorian Government's loan, which was floated after the crisis. The effects of the crisis can be seen from a study of the following table,

[1] See the report of the Bank of Australasia.

showing the price of Colonial Government securities (3½% inscribed stocks):—[1]

State.	1892.		1893.		June 19th, 1893.
	Highest.	Lowest.	Jan. Highest.	April. Lowest.	
New South Wales .	97½%	92¾%	97⅛%	91⅞%	92%
Queensland . .	95⅛	87¾	90⅞	85¼	85¼
South Australia .	96⅞	93	95½	93¾	93
Tasmania . .	98	92¾	96	90⅜	91½
Victoria . .	98	89⅞	90⅜	87⅜	87½

The volume of exports was maintained even at the lowered prices, while gold discoveries in Western Australia served to take the mind of the public off the recent crisis. Nothing at all of a formal character was done to control the unrestricted issue of credit, but during the next thirty years the number of banks competing for deposits was considerably reduced.

As was indicated in the course of the discussion, the Australian Governments manifested considerable interest in the welfare of the banks just prior to the crisis, and in some cases actually went to the assistance of individual banks. After the crisis was over, during the period of reconstruction, the Governments facilitated the passage of several Acts of Parliament to meet the convenience of the banks and their shareholders and creditors. We may conclude this chapter by noticing briefly the Acts of Parliament that were passed by the various Governments.

New South Wales.

Four Acts in all were passed:—

1. In 1893, the Bank Issue Act making notes legal tender. This was only for certain banks.
2. Current Account Depositors' Act, authorising the issue of Treasury Notes to depositors in certain banks as part payment of their deposit accounts.

[1] *A.I. and B.R.*, June 16th, 1893, page 596.

3. Bank Notes Act. This Act repealed the Bank Issue Act and regulated the future issue of the notes.
4. Companies' (Reconstruction) Act. To facilitate the reconstruction of the banks and companies which failed in the crisis.

Victoria.

There were two important Acts in 1893:—

1. Proclamation declaring a moratorium of five days.
2. Reconstructed Companies' Act. To facilitate the carrying out of the various schemes of arrangement which the banks made with their creditors.

Tasmania.

No Acts passed.

Queensland.

There were four Acts passed in 1893:—

1. Treasury Notes Act. This authorised the issue of Treasury Notes, payable on demand up to the limit of the Treasury Bills in circulation.
2. Treasury Notes Advances Act. (*a*) Provision made for the retirement of the notes payable on demand of those banks which suspended payment, and (*b*) authorisation given to the Treasury to make advances in Treasury Notes for that purpose.
3. Public Deposits Relief Act. Authorising the Treasurer of the Colony to make advances in respect of the deposits of a public nature in banks that suspended payment.
4. Reconstructed Companies' Act. Facilitating the carrying out of the reconstruction of certain banking and other financial companies.

South Australia.

No Acts passed.

Western Australia.

There was only one Act passed: the Public Depositors Relief Act. This Act afforded relief to depositors in certain financial institutions.

CHAPTER V

THE THIRD PERIOD OF AUSTRALIAN BANKING, 1893 TO 1930

THE banking crises which we have examined in Chapter IV, and particularly that of 1893, left behind a state of affairs which was not to be cured merely by schemes of reconstruction or by the acceptance of a few Acts of Parliament. It required the passage of time and the exercise of intelligence in regard to problems connected with branch expansion, the number of banks which were required to meet the needs of the Australian population and their industries at the stage of development which the country had reached, before investors could feel safe with their money invested in Australia, or before Australian bankers could claim that they had developed an efficient banking system.

The period of time from 1893 to 1930 falls into four divisions:—

1. 1893–1900.
2. 1900–14.
2. 1914–18.
4. 1918–30.

In the first period the banks were concerned with the problem of repaying their creditors and with getting on their feet again after the crisis. How great was this task was explained to the British public in a letter to *The Times*, dated Sydney, December 29th, 1894, from Mr. R. L. Nash, the financial editor of the *Daily Telegraph* (Sydney). In that letter he pointed out that the pinch of the reconstruction schemes would not be felt till 1897. Between 1897 and 1902 £50,000,000 was due to be repaid, and of this amount £20,000,000 was repayable in the United Kingdom. This meant a return of £16

per head of the population, of which £6 per head would have to leave Australia. He suggested that depositors should be given the option of placing their deposits in trust, against which a 4% mortgage stock would be issued for half the amount and 4½% inscribed stock against the other half.

As a matter of fact, some of the repayments were not made till the end of the war (1918), though the major portion had been made by 1900. Very nearly half the capital calls were paid by December 1894; calls in arrears were 10% of total calls and calls in advance represented 14%. By January 1894 the liabilities to the depositors had been reduced by 35%. In addition, the working expenses of the banks were reduced by £164,000 annually, and twelve of the banks reduced the number of their branches by 20%.[1] The period of recovery was made more difficult by the fact that prices for Australian products were low. The policy of high dividends was given up for one of low payments and in some cases no payments. This period of reconstruction was finished by 1900, and from that year until the outbreak of war in 1914 was a period of recovery and of development. The size of the dividends increased, two new banks were established, and one bank sold itself to another. Then came the war, and Australian bankers had their first real experience of exchange difficulties. During this period a process of amalgamation set in. It would appear to be reasonable to suppose that this tendency towards amalgamation would have begun earlier but for the influence of the reconstruction schemes upon the banks. The editor of the *Australasian Insurance and Banking Record* pointed out in 1894 that five of the reconstructed banks had power to amalgamate without reference to their shareholders. But he was of the opinion that the diversity of the due dates of repayments and the interests of the owners of extended deposit receipts were important reasons against amalgamation.[2]

[1] *A.I. and B.R.*, February 16th, 1894.
[2] *Ibid.*, November 9th, 1894, page 743.

In the fourth period, during 1920, the banks worked for a policy of deflation, though that policy was modified as time went on. In 1925 the Bank of England reverted to the gold standard, and in this the Australian banks followed suit. From 1921 there was a series of amalgamations which reduced the number of banks in operation considerably. In 1923 one new bank was established in the face of great opposition, but it has managed to maintain itself nevertheless. During this fourth period considerable quantities of capital were sought successfully by the banks from the Australian and British publics.

Let us examine each of these periods in closer detail. From 1893 till the turn of the century the world price of Australia's main products was very low; moreover, prices generally were depressed. In addition to this, there was the general atmosphere of depression that followed the crisis, and it was not till 1898 that business conditions showed any signs of improvement. In that year the price of merino wool rose, the property market showed signs of awakening, while in the following year the Boer War broke out, and this led to a steady demand for "bully" beef for the purpose of feeding the troops. This had the effect of steadying prices in the frozen-meat trade. Apart from this, the only hopeful event in Australia during these years was the discovery of gold in Western Australia.

One effect of the crisis was to drive depositors, who had lost money or whose deposits were still locked up in the reconstructed banks, to entrust their money to those banks which had weathered the crisis. As an illustration of this we find that in a very short period the Bank of Australasia had six thousand new accounts, while the Bank of New South Wales and the Union Bank of Australia, Ltd., benefited in a similar fashion. But apart from this increase in business, the banks which did not fail suffered in company with those that did. The Bank of New South Wales found it necessary to write down its capital, while the Bank of Australasia reduced the interest that it

paid on fixed deposits, and, in addition, cut down the salary of its staff by 10%. The Union Bank of Australia had its assets revalued, and showed them in the balance sheet at a lower figure.

Another aspect of the crisis, though a minor one, was the attempt made by the United Kingdom shareholders, particularly in Scotland, to organise in their own defence. Prior to the crisis there were two ways in which depositors in Australian banks were offered or sought additional security. Agents "touting" for deposits sometimes offered, as additional inducement to investors, an insurance of their deposit receipts. In other cases the depositors themselves insured their deposit receipts with insurance companies.[1] When the crisis occurred the matter became a very serious one for the insurance companies. Some of the companies at once honoured their obligations, others offered to renew the receipts in the reconstructed banks, while others sought the advice of counsel until such time as they should be sued by the British depositors. Counsel's opinion was that default did not actually occur until the maturity of the deposit receipt; and that if a reconstruction of the bank occurred in the meantime, then the policies were null and void. The Scottish depositors thereupon organised themselves into two groups to look after their interests, one group being that of insured depositors, and the other that of the uninsured depositors. The latter group does not concern us. The former group were unable to do anything to secure redress of their losses.

Of the banks which closed their doors, three did not reopen for business. Those that did open again for business suffered a varying fortune. Some were able to pay off their depositors within two years—for example, the Royal Bank of Queensland was in this position—others were not so fortunate as this, and did not shake off the burden for some years. The National Bank of Australasia, Ltd., managed to be free by 1900. But the majority of the banks found that they had over-estimated

[1] *A.I. and B.R.*, February 18th, 1893, page 89.

their earning capacity, and had to seek modified schemes of arrangement from their creditors. In most cases this modification was granted, but in one or two cases it was not. For example, in 1895 the City of Melbourne Bank sought easier terms from its depositors; the Australian depositors were willing to grant this, but the English depositors were not. So vigorously did they push their claims that they succeeded in having the affairs of the bank wound up, and the bank closed, with heavy loss to themselves. As an indication of how "jumpy" were English investors in 1895, the *Statist* interpreted the conference of Australian bank managers at Sydney in June to mean that they were conferring because the reconstructed banks wanted support from the Australian Governments in the event of a fresh breakdown. What the conference met to discuss was the definition of the word "bank," the form of the quarterly return, suggestions for control of an Australian note issue and methods of audit. To lull English suspicions the editor of the *Australasian Insurance and Banking Record* incorporated an article in the October issue of his journal in 1895 (page 664) discussing the *Statist's* article and repudiating its interpretation of the meaning of the conference.

But to revert to our discussion of dates of repayment. In the case of the Queensland National Bank, Ltd., a public inquiry was held into the affairs of the bank and all the directors lost their seats, a new set being appointed in their stead. Even among those banks which were successful in winning terms from their creditors there were some who did not meet their obligations till 1917 or 1918, while the Australian Joint Stock Bank had to sell out in 1909 to the Australian Bank of Commerce, an institution which was formed to buy up the assets of the Australian Joint Stock Bank.

The modified schemes of reconstruction differed in their terms. The Bank of Victoria, Ltd., simply went to the extent of discontinuing payments to ordinary shareholders, and the money so saved was used for releasing fixed deposits at a faster rate. This was in 1895. In

1897 the Australian Joint Stock Bank offered to meet the debt that it owed by paying half of the amount owing in cash and 3% interest on the remaining half. This offer was withdrawn, and in place of it another was substituted—that deposits were to be repaid in five years, and in the meantime the rate of interest was to be reduced from 4½% to 3%.[1] In 1895 the Colonial Bank of Australasia, Ltd., finding that it had only earned a profit of £243, asked the deferred receipt-holders to accept a lower rate of interest and to extend the time for the repayment of the amounts due upon the deferred receipts. This was agreed to, and, in addition, it was decided that all new business that had come to the bank after July 10th, 1893, should be made preferential to deferred receipts; and, later on, a portion of the capital was written down in value. Quite a different type of modified scheme was sought by the Commercial Bank of Australia, Ltd. Realising in June 1896 that it could not fulfil the terms of its scheme of reconstruction, the repayment of deposits was postponed, the rate of interest upon deposits was reduced, the calls upon shareholders were deferred, and a new company, called the Assets Trust, was formed to liquidate the assets of the bank.[2]

It can be seen from these accounts of the modified schemes of reconstruction that, in principle, what was sought was, *first*, longer time in which to pay; secondly, a reduction in the amount of current expenses. What all the banks were playing for was a revival of trade, so that some of their assets would regain their normal value, and the modified schemes of arrangement and reconstruction had that aim in view. On the whole the creditors of the banks were wise to allow an extension of time and a reduction of interest payments, because all the banks eventually honoured their obligations. The postponement of the date of repayment was not a serious inconvenience to the creditors, and the reduced rate of interest was not unreasonable in view of the general fall

[1] Coghlan, "Labour and Industry in Australia," Vol. IV, page 2129.
[2] *The Statist*, International Banking Section, November 11th, 1924.

in the level of prices. Those depositors who forced the City of Melbourne Bank into liquidation did not do nearly as well for themselves as did those depositors in other banks who accepted modified schemes of arrangement.

Another matter of importance at this time was the dissolution of the Colonial Banking Association. This was an association in Australia for regulating exchange rates between London and Australia, and it had been in existence for very many years. The dissolution occurred on March 31st, 1896. The Union Bank first withdrew on instructions received from its London board. The reasons given were that new influences had developed in Australian banking which had not existed prior to 1893. There was a divergence of interest in important matters between banks which had reconstructed and those which had not. Then there was the competition in rates of exchange which had developed as a result of the direct trade in wool with the continent. Finally, there was the growth of the new conditions of trade that had arisen with the practice of remitting money by cable.

Before leaving the whole question of schemes of reconstruction it would be as well to follow the interesting and instructive story of the modified scheme of arrangement of the Queensland National Bank, Ltd. It is interesting because it created considerable public comment at the time, and because for a space it became a political question. It is instructive because it shows how a strong and forceful manager can do all sorts of things of a doubtful character without the knowledge of the board of directors. It illustrates the danger of a liaison between the Treasurer and Premier of a State and a private bank in practising speculation in a new country. It represented the same type of thing that was going on in Victoria and in the Argentine. Finally, the story shows that, in some cases, shareholders will assert their rights to inquire and discuss. On May 15th, 1893, the bank closed its doors, and reopened them on August 2nd. In the interval the accounts of the bank were held in

trust by the Supreme Court. The bank had three types of creditors: the Government, the depositors and the shareholders. The Government's interest had been protected by the Queensland National Bank Agreement Bill of 1893, whereby the Government's deposits of £2,000,000 were to be repaid in twelve annual instalments, beginning not later than July 1st, 1899. There were other details, but they do not concern this account of the bank's reconstruction. The depositors and the shareholders were secured by a " Scheme of Arrangement." The terms of the Government's Act and of the " Scheme of Arrangement " were apparently being met during 1894 and 1895, for the records show that the money due was being paid over. In 1896 the General Manager, Drury, died, and his successor pointed out that the bank could not possibly meet its obligations. Thereupon the Premier ordered an inquiry. The report of the committee of inquiry only dealt with the 1896 failure, and not with that of 1893, but in March 1897 the Leader of the Opposition succeeded in having the inquiry enlarged to cover the failure of 1893. The report of this inquiry was withheld from Parliament till November 1897.[1] From the report it would appear that Drury, the General Manager, was an autocrat, who managed the affairs of the bank without reference to the directors, dispensing with inspection and authorising speculative advances for himself and for the Premier of the day and the Treasurer. The Treasurer had supported the bank during 1892 and until it suspended payments in 1893. When this report was presented, the Government prosecuted three of the ex-directors of the bank on criminal charges to defraud the shareholders. These men pleaded ignorance of the affairs of the bank which they were directing, and the court acquitted them. In the meantime, in 1897 the shareholders had elected a new Board of Directors, and through them a second " Scheme of Arrangement " was drawn up, acceptable to the Government, the depositors

[1] Vide *A.I. and B.R.*, December 18th, 1897, page 818, for a copy of the report.

and the shareholders. In essence the scheme was that 25% of the profits should be ear-marked for the Government, 50% was to be used for the private depositors and 25% was to go to reserves. In 1918 the scheme was finalised, and the shareholders had the pleasure of drawing their first dividend, 10% being paid.

We can now resume the general story of the period 1893–1930. By 1900 the reconstructed banks had either paid off their obligations or were hard at work paying them off under the various modified schemes of reconstruction and arrangement. Business prospects had improved somewhat, and the whole banking system entered upon a period of recovery and of development which was not arrested until the outbreak of war in 1914. As evidence of the type of expansion that was taking place, the *Australasian Insurance and Banking Record* on June 19th, 1901, in a leader on local borrowing, referred to the fact that during the previous six months £4,000,000 had been raised locally; while on April 19th, 1902, in a leader on reform in public expenditure, the same journal referred to some big schemes that were under discussion involving an expenditure of what was estimated to be £39,000,000. The details of this expenditure were as follows:—

The Australian Fleet . .	£20,000,000
Locking the Murray . . .	8,000,000
The Trans-Continental Railway .	4,000,000
Line to connect Broken Hill with Cobar	2,000,000
Alterations to Darling Harbour, Sydney, New South Wales .	5,000,000

All these projects were, in fact, set on foot, though they were not completed for some years. The Murray scheme is still in process of completion, while the Broken Hill–Cobar line was not completed till 1928. In 1900 the Bank of Victoria, Ltd., was able to release all its deposits to their owners, thereby shaking off the last effects of the 1893 crisis; at the same time it paid the

ordinary shareholders a dividend of 2½%. The Colonial Bank of Australia, Ltd., followed suit in 1902. In 1903, with the idea of giving a fillip to trade, the banks of Victoria and of Queensland reduced their discount rate from 4% to 3½%. However, in Queensland this was not wholly accepted by the banks there, and a war of rates ensued until common sense asserted itself, and there was an end to the war in 1906. Still the pulse of banking did not throb fast enough. The City Bank of Sydney was going steadily downhill, and the Bank of Adelaide was in a position to lend money, but could not obtain the extra borrowers.

In 1909 the Australian Joint Stock Bank gave up the struggle for survival, the modified scheme of rearrangement which it had concluded with its creditors proving to be too much for its earning power. A new institution, the Australian Bank of Commerce, was formed to take over the assets of the bank. The failure of the Australian Joint Stock Bank, Ltd., in 1909, together with the failure of the City of Melbourne Bank in 1895 and of the Standard Bank in 1900, reduced the number of banks operating in Australia from twenty-one to eighteen. The opening of the Australian Bank of Commerce, Ltd., in 1910 and of the Commonwealth Bank of Australia in 1912 raised the number to twenty.

We now come to the period of the war. The general effect of the declaration of war upon Australian industry was to produce a feeling of uncertainty. The practical effect was the reduction of orders for overseas goods and, in consequence, a reduction in the volume of imports. It was soon realised, however, that though the war might affect business by changing the form of the demand for goods, the general volume of demand was not going to fall off; moreover, the rise in prices, which soon developed as a result of the war loan expenditure, was taken by the business community to be an indication of a real increase in the demand of the community, and the various business men acted accordingly. Exchange difficulties were avoided owing to the fact that in England the Bank of

England agreed to advance at once against gold deposited with the Commonwealth Bank. £100 in Australia was to realise £97 in London, with an adjustment of the £3 later on.[1] Two other happenings of importance influenced the general situation. In the first place, the production of gold continued to increase in volume, as much as 11% in 1916; secondly, the Federal Government set in motion a process whereby the prices of certain commodities were to be guaranteed, and in 1916–17 it led off by fixing the price of wheat 55% above the pre-war value.

In the early days of the war the steady process of transferring large sums to reserves and of writing down the value of bank premises very heavily was abandoned, but only for a short time. The Bank of Australasia, for example, abandoned the policy in 1914, but as soon as it had had some experience of war-time conditions it found reason to change its policy, and in 1915 we find the old pre-war policy restored.

But the main effect of the war upon Australia lay in the development of the war loans. In the very early days of the war, approximately £90,000,000 was raised by Australia in London, but as the war went on and money became more difficult to obtain in London, the whole question of raising money in Australia was taken up by the banks and the Federal Government. The usual process was for the banks to guarantee a certain proportion of the loan, and if the public did not subscribe liberally, then the banks became responsible for that proportion which the public did not want. For example, in 1917 the Bank of Australasia subscribed for £3,200,000 worth of war loan. However, owing to the fact that the public subscribed very willingly, it only became necessary for the bank to take up a very small portion of the amount for which it had subscribed. As the war went on and the difficulty of obtaining money increased, various devices were used to induce the public to take up loans. Normally, an individual would apply for an amount of war loan, paying for it by cheque. Later on, securities

[1] *A.I. and B.R.*, November 21st, 1914, page 906.

were pledged against overdrafts, and the overdraft was used for taking up the loan. Later on again, earlier issues of war-loan scrip were pledged against overdrafts, which in turn were invested in a later issue of war loan. Finally, overdrafts were issued against the security of the war loan which the overdraft itself was going to buy. In these various ways the Australian public contributed something like £213,000,000 to the various war loans that were issued. But in reality the main lenders were the banks and the insurance companies.

In 1915 the Queensland National Bank, Ltd., managed to complete the scheme of arrangement which it had concluded with the Queensland Government. This left it free to deal with its own depositors and shareholders, and this settlement was completed by 1918. After the troublesome years of 1893 to 1897 it must have been a source of satisfaction to those who were responsible for the direction of the bank's affairs to be free from the heavy obligations to creditors.

Towards the end of 1915 the exchanges became unfavourable to Australia. On January 24th the Associated Banks approached the Federal Treasurer, Mr. Higgs, for permission to export gold. This request was refused. However, as the exchange difficulties became intensified, the Treasurer modified his decision on February 28th, 1916, and the export of gold was allowed under certain conditions.

The year 1917 was an anxious one for the Australian banks, particularly for those which had any dealings in wheat—for example, the South Australian banks—particularly the Bank of Adelaide, which possessed approximately 25% of South Australia's deposits. The anxiety was particularly connected with high freights and insurance risks. Some of the war loans were being spent on wheat, but apparently nothing like the amount that was being spent on war materials. At least this is the interpretation that the financial critic of the Sydney *Bulletin* placed upon the following statistics. In 1916–17 the deposits for South Australia rose from

£10,812,543 to £11,168,209, an increase of £355,666, or 3%. In New South Wales for the same period the increase was from £62,537,000 to £77,831,000, an increase of £15,294,000, or approximately 25%. Bearing in mind the fact that the average yield of wheat per head of the population for seven years in South Australia was 47 bushels and for New South Wales 36, the *Bulletin* critic was of the opinion that South Australia was not obtaining her share of the deposits that arose from the expenditure of war loans, and this, he thought, was due to the fact that the other States, New South Wales and Victoria in particular, were producing war products other than wheat. Returning to the subject the following year, the same critic repeated his criticism, and, selecting statistics from the Bank of Adelaide's balance sheet, he quoted them as evidence of the truth of his assertion that war-loan expenditure meant a boom for New South Wales and Victoria, but not for South Australia. The following are the statistics which he quotes [1] :—

LIABILITIES OF THE BANK OF ADELAIDE IN 1914, 1917 AND 1918.

Item.	1914.	1917.	1918.
Notes in circulation . .	£12,822	£12,822	£8,014
Bills	320,311	270,989	273,546
Deposits	4,834,739	3,759,455	4,591,817

An inspection of these figures indicates that where there is an expansion it is not very large ; if an allowance is made for the variation in the value of money in the respective years, which allowance the financial critic of the *Bulletin* does not make, such expansion, where there is one, would appear to be even smaller than the actual figures indicate. Taking the assets, the figures appear to point to the same result.

ASSETS OF THE BANK OF ADELAIDE IN 1914, 1917 AND 1918.

Item.	1914.	1917.	1918.
Liquid assets . . .	£2,988,615	£2,302,632	£2,851,659
Advances	3,128,104	2,710,842	3,023,097
Premises	111,321	114,658	101,149

[1] The *Bulletin*, "Wild Cat" column, May 9th, 1918.

It is fairly evident from these figures that loan money was not spent and banked in South Australia, and a comparison of the export figures for South Australia and those for New South Wales bears this out.

Year.	South Australia.	New South Wales.
1912–13 . . .	£19,000,000	£65,000,000
1914–17 . . .	18,000,000	119,000,000

(*Note.*—The figures for 1914–17 are an average for the years concerned.)

In the case of the South Australian figures there is a decline of £1,000,000 in the total value of exports (ignoring the change in the value of money, which would make the decrease even more pronounced)—that is, a fall of more than 5% ; while in the case of New South Wales there is an increase in the total value of exports amounting to £54,000,000 (disregarding the change in the value of money, which change would reduce the increase somewhat)—that is, an increase of more than 80%.

During 1917 and 1918 a process of amalgamation was set on foot which was to continue almost without interruption right up to the year 1928. In 1917 the Bank of North Queensland, Ltd., and the Royal Bank of Queensland, Ltd., merged their identity in a new bank, which was established for the purpose, the Bank of Queensland, Ltd. In the same year the Commercial Bank of Australia, Ltd., purchased the National Bank of Tasmania, Ltd. These amalgamations reduced the number of banks operating in Australia from twenty to seventeen, while the formation of the Bank of Queensland, Ltd., increased the number to eighteen. In 1918 two more absorptions took place, the Australian Bank of Commerce taking over the City Bank of Sydney, and the National Bank of Australasia, Ltd., the Colonial Bank of Australasia, Ltd. These two absorptions reduced the number of banks in operation from eighteen to sixteen. The terms of the transfer of the Colonial Bank of Australasia, Ltd., were as follows :—

1. All its assets, save its uncalled capital, were transferred.

2. The shareholders of the Colonial Bank of Australasia, Ltd., exchanged their shares for those of the National Bank of Australasia, Ltd.

3. Two of the directors of the Colonial Bank of Australasia, Ltd., were given seats on the board of the National Bank of Australasia, Ltd.

4. A retiring allowance of £2,000 was distributed among the directors of the Colonial Bank of Australasia, Ltd.

5. The National Bank of Australasia, Ltd., increased its capital from £3,407,004 to £5,000,000.

When the Colonial Bank of Australasia, Ltd., was taken over it had sixty-eight branches and a paid-up capital of £439,280.

With the close of the war in November 1918, Australia was faced with the usual reconstruction problems, though they were not of the same character or of the same intensity as those of the European countries. The general policy of inflation, which had been in operation during the war, was continued till the early months of 1920, when a policy of deflation was initiated. This had the general effect of reducing prices 20%.

Shortly after this a rather difficult exchange situation arose. It came about in this way. At the conclusion of the war many of the orders which had been placed in London and which could not be filled were completed and the goods were despatched to Australia; added to these imports were those representing the new orders placed abroad by people in Australia who were expecting a trade revival after the war.[1] In addition, there were substantial Government payments to be made in London, while there were some over-payments by the British Australian Wool Realisation Co., which complicated the situation.[2] The general effect of this double supply of

[1] Imports increased from £99,000,000 in 1919–20 to £164,000,000 in 1920–21.

[2] *A.I. and B.R.*, October 21st, 1920, page 626 *et seq.*

imports and of the London payments was to deplete the supply of claims in London. This was followed by restrictive prices for remittances. From October 8th, 1920, telegraph transfers were raised from 17*s.* 6*d.* to 30*s.* On November 1st this was again raised to 40*s.*, while on December 1st the telegraphic transfer rate was 50*s.* and the "on demand" rate was 37*s.* 6*d.* By the end of 1920 there were signs that the restrictions upon remittances were having their effect, for there was a curtailment of imports. The sale of the wool clip, however, hung fire, so that funds were not placed in London as speedily as was hoped. The editor of the *Australasian Insurance and Banking Record* tried to hammer home the lesson by writing: "The main point to be recognised is that Australian purchases abroad require to be in proportion to the real purchasing power of the country, based upon production and exports, the value of which depends partly on seasons and partly upon the prices obtainable."[1] The position, however, did not mend as quickly as was expected. Probably the real reason was that in June 1920 the British Government ceased paying for the wool clip, as had been done during the war. This meant a return to representing exports by bills, instead of by prompt payment against cabled advice of appraisement. Prices declined for wool and metals, though a rise in the price of wheat and of butter offset, in part, the fall in wool and metals. There was still, however, a considerable amount of importing.[2] This was followed by a restriction of accommodation for imports in 1922, and the effect of this was to "put the exchanges right" by accumulating funds in London. But next year the difficulty arose in another form, and the banks stated that because of the accumulation of funds in London heavy rates would have to be charged for the discounting of bills drawn on London. During 1923–24 the sum of 72*s.* 6*d.* discount was charged to Australian producers, who were anxious to realise on their bills. This created an acute position,

[1] *A.I. and B.R.*, December 20th, 1920, page 773.

[2] *Ibid.*, September 21st, 1921, page 677.

and the whole problem was discussed in the Press and in the financial and economic journals.[1] There were two explanations of the situation advanced. The first one was that, for various reasons, the Australian banks had accumulated funds in London, and that therefore it was impossible to supply money in Australia at a low rate because of the cost of transferring funds from London. The other explanation advanced was that there was no accumulation of funds in London, but that the banks had over-advanced to secondary industry in Australia to such an extent that the ratio of advances to gold was an unsafe one. To discourage people from coming to the banks for advances, a high rate was charged for discounting bills. The Australian banks supported the former view, and denied the truth of the latter.

In his presidential address to the Social and Statistical Science Section of the Australasian Association for the Advancement of Science at Adelaide, South Australia, in 1924, Professor Copland[2] outlined the former view. Pointing out that the relative price-levels in Great Britain and Australia did not explain the position of the Australian exchanges, he went on to show that the balance of trade statistics did. For the period 1920–24 there had been :—

(*a*) An excess of imports amounting to £33,000,000,
(*b*) Interest paid abroad on the public debt amounting to £68,000,000,
(*c*) Disbursements of Bawra profits approximately £34,000,000,
(*d*) Commonwealth and State loans borrowed abroad —that is, new money—£67,000,000.

Setting (*b*) against (*d*) and (*a*) against (*c*) there would almost be a complete cancellation of indebtedness.

[1] My account is based on the *Proceedings* of the Australasian Association for the Advancement of Science, 1924 meeting.
[2] Formerly of the University of Tasmania, but now of the University of Melbourne.

But there would also be the following items which would give Australia credits in London other than loans :—

(*a*) Investment of foreign capital in Australia.
(*b*) Borrowings of public bodies.
(*c*) Capital brought by immigrants.

And though no figures were quoted for these three items, it was argued that there must have been a large accumulation of funds in London. The remedy suggested was that, since it was impossible to import gold as a basis for currency expansion, notes should be issued by the Australian Notes Board against credits accumulated in London.

The other point of view was advanced by Mr. J. Russell Butchart.[1] He claimed that, since the transactions which drew money from London since 1919–20 were £634,000,000 and transactions which placed money in London were, approximately, £610,000,000, there could not possibly be an accumulation of funds in London, and he supported this statement by quoting the remarks of the Chairman of the English, Scottish and Australian Bank, Ltd.;[2] he also claimed that the Commonwealth Statistician agreed that there was no money in London. Turning then to the figures of the Australian banks, he showed that from December 1921 to June 1924 advances by the banks had increased by £39,000,000, thereby making the proportion of cash to liabilities fall from 23% to 17% approximately. When, therefore, the wool and wheat exports needed overdrafts advanced against them, the banks feared to do this, lest the percentage of cash to liabilities should fall below 17%. The banks were therefore discouraging any call upon their resources by putting up their rates. They were also calling in overdrafts, because by so doing they were able to reduce both

[1] Formerly a banker, but now an exchange broker in Melbourne. Butchart's paper was only published by title. My copy of his paper was obtained from the Secretary to the appropriate Section of the A. A. A. S.
[2] *Melbourne Argus*, December 21st, 1923.

overdrafts and deposits, and thereby to increase the ratio of cash to deposits. He cited the case of a firm with an overdraft of £317,000. When it was asked to reduce this amount, the firm issued 77,000 new shares of £1 each. The investors drew cheques against their deposits for this amount, thereby reducing them by £77,000; the overdraft was reduced by this amount; and in this way both the deposits and the advances of the banks were reduced and the ratio of cash to liabilities was improved without in any way interfering with the quantity of cash reserves. To Butchart, the solution of Australia's exchange problem lay rather in a continuation of this policy than in that of issuing notes to finance the export of primary production.

Whether "the accumulation of funds in London" or "over-advancing to secondary industry" was the true explanation of Australia's exchange problem, the following steps were taken shortly afterwards.

On November 6th, 1923, the Imperial Economic Conference met, and the Dominions at once raised the question of the Imperial exchanges. At the same time Mr. John Darling, a director of the Midland Bank, submitted a scheme for Empire Currency Bills. Both the question of the Imperial Exchanges and the Darling scheme were referred to a sub-committee presided over by Sir Charles Addis, Chairman of the London Committee of the Hong Kong and Shanghai Bank. This committee reported as follows:— [1]

1. That arising, as they do, from the suspension of an effective gold standard, the difficulties of Inter-Imperial Exchange will disappear when the currencies of Great Britain and the Dominions affected are again made convertible into gold.

2. That it is neither necessary nor desirable to adopt complicated plans for a new instrument of credit, such as Empire Currency Bills, which involve difficult and disputable constitutional and financial questions.

3. That where difficulties have arisen in regard to

[1] Cmd. 2009, 1924. Great Britain.

exchange between certain parts of the Empire and between such parts and the United Kingdom—

(*a*) The position could be ameliorated if the note-issuing authorities were to accumulate sterling assets and to undertake to exchange their local currencies for sterling and vice versa.

(*b*) This measure might be further developed and assisted by the creation of central banks and by mutual co-operation as recommended by the Genoa Conference.

(*c*) In some cases bank charges for buying and selling appear to be unduly high, and should be capable of reduction.

Following upon the resolutions of the Imperial Economic Conference, the following steps were taken in Australia in reference to the accumulation of funds in London and the issue of currency against balances there. Owing to the competition by the Federal and State Governments for money, it had become very dear. At the Conference an arrangement was reached by which the Commonwealth and State Governments were to keep off the London market till June 30th, 1925; after that date, with the idea of avoiding local competition, the Commonwealth Government was to issue all loans until June 30th, 1926, the individual States sharing in the proceeds on an agreed basis.[1] This decision placed under definite control the problem of raising money in London, and was a contribution towards solving the question of "the accumulation of funds in London."

The next question was that of the need for currency, because during 1923–24 the Australian currency had contracted to the extent of £4,932,000, whereas the deposits of the Australian banks had increased by £20,000,000. In 1924 the Associated Banks negotiated with the Commonwealth Government a settlement whereby the Government agreed to issue up to £15,000,000

[1] Vide speech of Sir Arthur Whitworth, Chairman of the Court of Directors of the Bank of Australasia, April 2nd, 1925.

of notes, if required by the banks, against the lodgement of approved securities either in Melbourne or London at the current Bank of England rate. Later in the same year the Commonwealth Bank Act was amended to give effect to the decision, and the position finally reached was that the Commonwealth Bank was able to issue notes against accumulated credits in London so as to enable the banks to finance the export of primary production.

In 1925 Australia, together with Great Britain, returned to the gold standard for the settlement of international indebtedness, and until the year 1929 the position of the Australian exchanges was normal.

We may now return to our consideration of the story of the development of the Australian banking system for the period 1893–1930 where we left it on page 154, before we broke off to follow the relation of the Australian exchanges to the Darling Scheme and the 1923 Imperial Economic Conference.

From 1921, the process of amalgamation, which set in during the war, was continued. In 1918 the number of banks in Australia, including the Commonwealth Bank, was sixteen. In January 1921 the English, Scottish and Australian Bank, Ltd., took over the London Bank of Australia, Ltd., and in March the Commercial Bank of Tasmania, Ltd. The terms of the transfer of the London Bank of Australia, Ltd., are important as an illustration of the amalgamations that were taking place. The terms were as follows:—

(*a*) Holders of ordinary shares in the London Bank of Australia, Ltd., received five shares of £25 (£12 paid) of the English, Scottish and Australian Bank, Ltd., for every nine of £22 10*s*. (£10 paid) held, together with £1 in cash per share.

(*b*) Holders of ordinary London Bank shares who had prepaid their liability to the extent of £12 10*s*. received £24 10*s*. for each of their shares.

(*c*) Holders of Preference shares in the London Bank of Australia, Ltd. (£10 fully paid) were allowed to choose one of two courses. Either they could receive five shares of £25 each (£12 10*s*. paid) in the English, Scottish and Australian Bank, Ltd., for every nine in the London Bank of Australia, Ltd., plus the payment of £2 in cash for every share; or they might receive the sum of £13 in cash for each Preference share which they held.

In 1922 the National Bank of Australasia, Ltd., purchased the Bank of Queensland, Ltd., which institution had been formed by the amalgamation of the Bank of North Queensland, Ltd., and the Royal Bank of Queensland, Ltd., in 1917. The purchase added forty-nine branches to the National Bank of Australasia, Ltd., and established it with a very sound business in Queensland, where, until this year, it had not operated on a very large scale.

In 1927 three more banks merged their identity in others. These were the Bank of Victoria, Ltd., which was taken over by the Commercial Banking Co. of Sydney, and the Royal Bank of Australia, Ltd., which was taken over by the English, Scottish and Australian Bank, Ltd. As 57% of the assets of the Bank of Victoria, Ltd., were used in financing Victoria's internal trade, the Commercial Banking Co. of Sydney came into the possession of a sound business in a State in which it had not operated before to any great extent. The third amalgamation took place when the Bank of New South Wales took over the Western Australian Bank, one share of the Bank of New South Wales being exchanged for sixteen of those of the Western Australian Bank. The transfer added fifty branches to those of the Bank of New South Wales, and, as in the case of the entry of the National Bank of Australasia, Ltd., into Queensland and of the Commercial Banking Co. of Sydney into Victoria, the transaction gave the Bank of New South Wales

possession of a widely distributed business in a State in which that bank had not operated over a wide area.

A complete list of the amalgamations since 1918 is as follows :—

Date.	Name of Bank Taken Over.	Name of Bank Taking Over.
1921	London Bank of Australia, Ltd.	English, Scottish and Australian Bank, Ltd.
„	Commercial Bank of Tasmania, Ltd.	English, Scottish and Australian Bank, Ltd.
1922	The Bank of Queensland, Ltd.	National Bank of Australasia, Ltd.
1927	The Bank of Victoria, Ltd.	The Commercial Banking Co. of Sydney, Ltd.
„	Royal Bank of Australia, Ltd.	English, Scottish and Australian Bank, Ltd.
„	Western Australian Bank.	Bank of New South Wales.

The disappearance of these six banks reduced the number of banks in Australia from sixteen to ten, but in 1923 there was formed the Primary Producers' Bank of Australia, Ltd., and in 1926 the Queensland Deposit Bank, Ltd., and the Federal Deposit Bank, Ltd. These three banks raised the number to thirteen. The story of the Primary Producers' Bank, Ltd., is interesting. After the war, Sir Joseph Carruthers, a well-known figure in Australian political life, made public his Million Farms Scheme, the object of which was to place more men on the land to increase Australia's primary production. Though the scheme caught the imagination of the Australian public, it never became established, and it was next heard of as a company, known as Land Credits, Ltd., its object being to finance farmers and graziers under the ballot system. Then, claiming that the trading banks were financing secondary industry at the expense of primary industry, its promotors deemed it advisable to form it into a bank under the title of the Farmers' and Merchants' Bank. When Land Credits, Ltd., applied to the New South Wales Government for permission to change its name, the application was refused on the ground that the proposed title of the bank would interfere with the Rural Credit Scheme which the

Government had in hand. The bank was therefore formed in Queensland, and then registered in New South Wales as a foreign bank, and it opened for business with the title of the Primary Producers' Bank of Australia, Ltd.

But to return to the amalgamations. The *Statist*, discussing them in the International Banking Section in its November 1927 issue, said that the cause of them lay in the necessity for the extension of connections which the smaller banks could not afford; the amalgamations had not been dominated by a struggle for survival, but rather by the idea that experience had shown that large banks with widespread branch connections were more stable than small localised institutions.

Before turning to the task of estimating the characteristic features of Australian banking since 1893, or of analysing the capital subscriptions and the branch development, reference should be made to the fact that until recently none of the Australian banks has ever published a bulletin setting out its own position and discussing current financial problems—along the lines of the Midland Bank's publication or that of the National City Bank of New York. When one considers the value of these publications, one cannot but wish that the Australian banks would follow suit. Moreover, one would like to see more information given in the Australian banks' balance sheets and by the Chairmen in their annual addresses to their shareholders. The banks have very little to lose by this additional publicity, and monetary and financial science is almost sure to gain by it. Recently, the National Bank of Australasia, Ltd., has broken away from this thoroughly bad tradition by issuing a monthly bulletin, a summary of which is cabled to London and there distributed, while in its balance sheet it has been giving more information than is customary.[1] For example, in 1927 the Chairman of Directors, Sir John Grice, explained that the size of the average current account was £152 and that the average of the interest-bearing deposits was £770. Turning to the

[1] Recently the Bank of New South Wales has followed suit: *vide* its "Circular," July 3rd, 1930, Number 1, page 4. John Sands, Ltd., Sydney.

question of overdrafts, he pointed out that 40·4% of the bank's overdrafts went to primary producers, and that the average overdraft for primary producers was £780; 3·7% of the overdrafts went to secondary industry, and in this case the average overdraft was £3580; 24·7% of the bank's overdrafts went to merchants, and for them the average overdraft was £1053; 28·3% of the overdrafts were of a personal or professional character, averaging £429 per account; while 2·9% of the overdrafts could be classed as sundry borrowings. From these figures the Chairman deduced the statement that the small man's affairs bulked very large in the accounts of the bank. We may add that it is to be hoped that the other banks in Australia will follow the example of the National Bank of Australasia, Ltd., by publishing similar figures.

A notable feature of the post-war financial situation has been the rise of the United States as a creditor Power, coupled with the growing tendency of most nations to look to her for assistance in the form of loans. This latter movement has extended even as far as Australia. Early in 1919 there appeared in the *Australasian Insurance and Banking Record* an article entitled "America and Australia," discussing a speech by Mr. H. Y. Braddon,[1] the Australian Trade Commissioner in the United States, delivered before the New York Chamber of Commerce.[2] The gist of the article was to the effect that Mr. Braddon was reported to have said that Australia wished to extend her trade with the United States, but that America must realise that Australia would be unable to pay for the goods purchased, and the United States must expect to invest money in Australia or to purchase Australian securities in return for the goods sold to the Commonwealth. When spoken to about this speech, Mr. Braddon was reported to have said that it arose from the decision of the Federal Cabinet in Australia to invite the investment of capital from abroad in Australia. The comment of the editor of the *Australasian Insurance and Banking Record* upon this decision and speech was that Australia would

[1] Now Sir Henry Braddon. [2] *A.I. and B.R.*, March 21st, 1919.

welcome loans from American lenders as an alternative to London, but that it was not at all certain that London would not go on lending to Australia, or that the United States could lend continuously over a long period. The editor went on to say that the financing of trade between Australia and the United States would not be welcomed if it meant a decline in the position of London, and it was hoped that Australia in her loan operations would keep to London, in view of the fact that London had had a difficult time during the war and needed all the support that the Dominions could give her.

In 1922 Mr. Mark Sheldon,[1] on his return from America, where he had been acting as Trade Commissioner, said that he hoped that Australia would be developed with American money. He added that the United States Government had reduced the tariff on Australian wool from 100% to 30%, so that it would be possible for Australia to send merino wool to the United States.[2]

At the end of 1924 and early in 1925 Colonel Birch Helms, of Messrs. Blair & Co., New York, visited Australia to explore the possibility of investing American capital in Australian industries, municipalities and in Government securities.[3] He was careful to point out to the Australian public, however, that the lending would have to be done on the "pay-as-you-go" plan.[4] This visit of Colonel Helms was followed in 1925 by one from Mr. Pierpont V. Davis, an American financier, whose mission was the same as that of Colonel Helms; while in January 1926 Mr. J. F. Lauderdale, of the National City Bank of New York, visited Australia with the object of co-operating with the Federal and State ministries and the leading municipalities about loan requirements.[5] The next development came from

[1] Now Sir Mark Sheldon. [2] *A.I. and B.R.*, January 21st, 1922.
[3] Colonel Helms was closely associated with President Wilson at the Peace Conference.
[4] *A.I. and B.R.*, February 21st, 1925.
[5] *Ibid.*, January 21st, 1926.

Australia, when Sir James Elder, Trade Commissioner for Australia in the United States, on his return to Australia after a period of two years in the United States, said that Australia would be well advised to raise loans in America.[1] He added that he thought that Australia's future was linked with America, and that, owing to the growth of American population, the United States would no longer be able to supply her own primary production.

After this there was a lull in the public utterances of prominent Australians and Americans about the desirability of investing American money in Australia. In the meantime, an office of the Commonwealth Bank of Australia was opened in New York, and upwards of £30,000,000 of loans to Australia were taken up in that centre. Early in 1928—January 7th—Mr. H. T. Armitage, Deputy-Governor of the Commonwealth Bank of Australia, on his return from America to Australia, said:

> "New York regards loans to the British Dominions as the next-best security to America. Wall Street was prepared to make loans to Canada and Australia at from 4½% interest, but it charged European countries anything from 6% upwards. America is exhibiting a good deal of interest in Australia, and regards this country as having big potentialities for development. There seems to be a sentimental objection against our borrowing from America on the theory that money borrowed from America means spending it there. That, however, is quite a fallacy, because no such condition is attached to the loans. In fact, banking machinery is in existence which would enable the whole of the proceeds to be transferred to London within twenty-four hours. The Australian financial authorities are keeping in close touch with London, and the two countries will act in conjunction where loans are concerned. We will not go to New York for money if it does not suit London, but there are occasions when London would prefer us to raise our money in New York."[2]

But the opening of an office of the Commonwealth Bank of Australia in New York apparently did not meet

[1] The *Melbourne Herald*; reproduced in the *A.I. and B.R.*, November 22nd, 1926.

[2] *A.I. and B.R.*, January 21st, 1928.

with the success that was anticipated. On April 28th, 1929, it was announced that it would be closed. Sir Robert Gibson, Chairman of the Board of the Commonwealth Bank of Australia, in making this announcement, said the market did not offer any reasonable opportunity for the flotation of Commonwealth requirements in the immediate future.[1] To this reason for closing the New York branch, Mr. Riddle, the Governor of the Bank, added the following three reasons: (1) no loan had been made by the United States for a year, and there appeared to be no likelihood that she would do so in the future; (2) Mr. Pierpont Morgan had a London office, and if money was to be borrowed in the United States, arrangements to do so could be made through him; (3) the profits of the agency were taxed in the United States.[2] As a matter of fact, the agency had made a loss while it operated in New York; hence this third reason could not have been a substantial one.

We may now proceed to sum up the stages in the development of the relationship between Australia and the United States in financial matters. First there were suggestions emanating from Australians that the United States should lend to Australia; these suggestions began in 1919. In 1924, 1925 and 1926 three important United States financiers visited Australia to explore the possibilities of making loans. Then an agency of the Commonwealth Bank of Australia was opened in New York, and £30,000,000 was taken up in that city. Finally, the agency of the Commonwealth Bank of Australia in New York was closed, arrangements having been made to utilise the London office of Mr. J. Pierpoint Morgan in the event of there being any further dealings with the United States by Australia.

We shall return again to this question of the financial relationship between Australia and the United States when we are considering, in the concluding chapter, the orientation of future Australian financial policy.

We pass on next to consider the flow of capital into

[1] *A.I. and B.R.*, May 21st, 1929, page 38. [2] *Ibid.*

the possession of the Australian banks during the period 1893–1929 and the reserves that were accumulated during the same period. But before doing this it is necessary to remind readers of the method adopted for compiling the information that is about to be discussed. The description of this method is too lengthy to be reproduced here, but it may be found on pages 77 and 78, and it should be read again before going on to consider what follows. To what is said on those pages there is the following to be added, viz. that the figures in Appendix VIII, and those for the year 1926 onwards, referring to the number of branches, may not be correct, because it has not been possible to ascertain whether or not the two banks established in that year have opened any branches. The *Banker's Almanac* does not refer to these two banks at all, but they appear in the *Commonwealth Year Book*, though this latter source does not say anything about the number of their branches. In any case, the number of branches, if they do exist, cannot be more than one or two, and hence the total of branches shown in Appendix VIII will not be very far wrong. It has been possible to secure the amounts of the capital and reserves of these banks up to 1928, but not beyond that date.

Appendix VIII informs us that in 1894 the capital in the possession of the Australian banks was £17,706,639, whereas in 1929 it had increased to £45,249,207. This is a considerable increase. It is interesting to notice, however, that save for the years 1895–1903, it was not till 1912 that the capital of the Australian banks reached £20,000,000. And it was not till 1923 that it reached £30,000,000. Fifteen millions of capital have been accumulated in the last seven years. Turning to the reserves, we find that in 1894 they amounted to £8,780,176, and in 1929 they were £35,411,969. Unlike the accumulations of capital, which in the years after the crisis quickly mounted till the year 1903, when they began to diminish, the reserves of the banks diminished slightly after the crisis and continued to do so until

the year 1903, when they began to increase. This increase was maintained steadily until the end of the war, when the reserves were accumulated more rapidly, nearly £10,000,000 being put to reserves during the last seven years. Seven of the larger banks have always maintained substantial reserves, almost equal in size to the amount of the capital account, and one or two of them have reserve accounts that are larger than the capital accounts.

Before going on to discuss the branch expansion of the banks during the period which we have under consideration, it should be understood that the branch figures in Appendix VIII are the totals for the Australian banks; this means that there are included the offices in London, the offices in New Zealand and those in some of the neighbouring islands such as New Guinea and Samoa or Fiji. If these branches are to be excluded, it will be necessary to reduce the number of the branches by about 200. In addition to this, it should be explained that the number of branches in Appendix VIII does not include the banks in New Zealand, Japan or France which have branches in Australia. These are not very numerous, however; in all they would not number more than six or seven. With these preliminaries out of the way we can now look at the list. At the conclusion of 1894 the number of the branches was 1271—a fall of 199 when compared with the total for 1893. For the next three years the number continued to diminish, but in 1899 it began to increase. This tendency to increase was maintained until the war, when the number reached over 2000. After that the increase was a steady one till 1929, when the total was 3246.

We may turn next to discuss the dividends paid during the period. As has already been indicated, the period of very heavy dividends came to an end with the 1893 crisis, and thereafter the period of smaller dividends set in. This is only natural. For over fifty years Australian banks had paid dividends of 15% to 36%, and this high rate of profit had attracted considerable amounts of

capital, which by 1893 had reached about £16,000,000. The heavy supply of capital was bound, eventually, to reduce the size of the dividends. Mr. Martin Ridley Smith, Chairman of the Court of Directors of the Union Bank of Australia, referred to the matter in the following way when addressing his shareholders in 1896: "The period of high interest in Australia is over. Australian banking will become largely what English banking is, *i.e.* a large turnover with a low rate of interest." Save in one or two instances, since 1893 the dividends of the Australian banks have all been below 17%, and generally below 15%; while the normal dividend is considerably below that.

Immediately after the 1893 crisis there was a general suspension of dividend payments until the year 1900. There were one or two exceptions to this. The Commercial Banking Company of Sydney paid from 8% to 10% for a period, and the City Bank of Sydney also paid 10%; the Union Bank of Australia, Ltd., began with a 12% dividend, but by 1896 this was reduced to 5%. In general, however, no dividends were paid till 1900, because all available profits went to the task of freeing the banks from their obligations under their schemes of arrangement. Some of the banks were not able to resume the payment of dividends till 1918, *i.e.* twenty-five years after the crisis. In 1900 came the general resumption of dividend payments, varying in amount from 2½% to 12%. As we have already seen, the period 1900–14 was not one of favourable business conditions, but, nevertheless, with the exception of those banks which were paying no dividends, any payment varying from 7% to 17% was to be found. From this time forward dividends were stabilised at between 5% and 17%, with an average dividend of 8% or 9%, until 1924. In that year there was a slight change, the upper limit of the payments falling and the lower limit rising, but the average of the dividend is higher, being generally 10% or 11%. Right through the period there was a general tendency to put profits to reserves,

or else to write down the value of bank premises. Large sums of from £80,000 to £100,000 were regularly written off the value of bank premises. For example, the value of the premises of the Bank of Australasia in 1925 was shown in the balance sheet as £47,000, whereas their actual value was £1,000,000. This has been the general policy of the Australian banks since 1893, though perhaps it has not always been so marked as in the illustration just given. This is a policy of safety, and it is this policy which accounts in part for the fall in the level of Australian dividends.

The final problem that has been left over for consideration in this chapter is the general problem of colonial indebtedness. This book is not primarily concerned with public finance; but it is impossible to discuss the problems of Australian banking without some reference to the raising of funds abroad by individuals and institutions domiciled in Australia. Public borrowing, though there are one or two instances of it before 1850, did not begin seriously till after the excitement associated with the gold discoveries had died down. Private investment in the form of bank deposits, or in the purchase of bank shares or of loans to private institutions, began with the establishment of the Bank of New South Wales in 1817, or even earlier. There is not much reference to the question of colonial borrowing in the records which are available up to 1877, but with the establishment of the *Australasian Insurance and Banking Record* in that year and, later, of the Institute of Bankers, the matter received more attention. The first mention of the subject both in the journal and in the Institute occurs in 1888, when, on September 18th, Mr. William Westgarth lectured before the Bankers' Institute and suggested that, in order to put colonial borrowing on a proper footing, the States should federate. The *Australasian Insurance and Banking Record* opposed this proposal in a leading article dated October 16th, 1888. Three years later, on April 23rd, 1891, the question of colonial borrowing had become so acute that

there was a full discussion of it at the Bankers' Institute. The immediate cause of the discussion was the fact that the Victorian Government had failed to get its loan of that year placed on the London market by the London and Westminster Bank, and this, it appears, was Australia's first experience of such a refusal. The discussion took two lines: first, the question was asked why Victoria had been singled out for refusal, when other places, in a worse financial condition, had not been so treated; secondly, an inquiry was made into the state of affairs locally and in London. It is not worth our while to follow the first line of the discussion. The second, however, is more to our purpose. In the discussion it was pointed out that the condition of affairs in London was fairly bad. The Bank of England reserve had fallen by £2,000,000, loan tenderers were full up with loans, the North and South American loans were in default of both principal and interest payments to the extent of £40,000,000, there had also been defaults by Turkey, Egypt, Greece, Spain and other minor countries; finally, there had been the Argentine crisis and the consequent Baring failure. All these factors would create an unresponsive atmosphere in London. In Australia the public debt of all the colonies when added together was £160,000,000, or £40 per head. Moreover, the individual colonies were in the habit of going individually to the London market, so that the ramifications of Australian colonial stocks were a source of irritation to investors, who could not understand the bewildering number of colonial stocks. Other weaknesses pointed out were the irresponsibility of Treasurers and the fact that much of the money was being used for the wrong type of production. With regard to the irresponsibility of Treasurers, it was thought that triennial Parliaments tended to make Treasurers careless; if a strong line were taken in regard to finance, there was the possibility of political defeat to be faced, whereas if a weak line were taken, the responsibility could be evaded by passing on the burden to another Treasurer or to another Parliament. With

regard to production of the wrong type of goods, it was pointed out that by developing secondary industries it was not possible to pay off existing debts, since the country to which the interest was to be paid only wanted primary produce from Australia. The Bankers' Institute then attacked the question of remedies. The first suggestion was that when Federation came, some measure should be framed making the whole of Australia responsible for the debts, and that a 3% inscribed stock should be issued, in the hope that it would be readily and frequently dealt in. In this way the irritation caused by visits by overseas Treasurers and Premiers and the bewilderment caused by many stocks could be avoided. It was suggested that the carelessness of Treasurers could be met by establishing a permanent non-political committee on finance to review the votes for money. As an immediate remedy, a sinking fund and a reduction of the Civil Service were suggested. This discussion by the Bankers' Institute was very ably summed up in a leader in the *Australasian Insurance and Banking Record*, which was published a month later.[1] In that article the editor begins by asking the question: Is colonial borrowing justified? And he answers in the affirmative only on condition that the investment shall be reproductive within a reasonable time. He then lays down the following principle, that the right way to judge public borrowing is not by the amount of debt per head, but by the amount of the interest charge per head. He illustrates this principle with the following statistical examples for Victoria:—

	1880.	1891.	Ratio of Increase.
Amount of public debt of Victoria . . .	£20,507,700	£42,527,693	107%
Interest payable yearly thereon	979,864	1,685,865	72
Charge per head per annum for interest . . .	£1 3*s.* 1*d.*	£1 9*s.* 10*d.*	29

[1] *A.I. and B.R.*, May 18th, 1891, page 312.

The test, in the opinion of the editor, was whether Victoria could better afford to remit £1 9*s.* 10*d.* per head per annum in 1891 than she could £1 3*s.* 1*d.* in 1880. The fact that the debt itself had doubled was not important. Turning to the question of the repayment of loans at maturity by means of sinking funds, it is pointed out that those portions of the debt which are reproductive might, with advantage, be converted into a permanent stock redeemable at the option of the colonial Government; that portion of the stock which is not reproductive should be liquidated out of land or special taxation. If these two steps were taken, then a sinking fund would be unnecessary.

This discussion by the Bankers' Institute is interesting for many reasons, both for what it stresses and for what it omits; and the time of the discussion—two years before the crisis of 1893—is particularly important. What the bankers stressed was their own problem—the unmanageable nature of Government loans and the effect of bad public finance on values generally. What they did not stress was how to control the volume of credit which made it possible to bring the Government loans to Australia or to leave them in London to meet contingencies. Nor did they squarely face the general economic situation—that the nature of Australian industry was changing, that more and more the population was drifting into manufacture and commerce, and, particularly, the fact that they themselves were financing that tendency. In their discussion they did object to the fiscal policy of the Victorian Government, and they did point out that the products of secondary industry would not directly pay the interest bill, but they did not attempt to find out why it was that everyone was supporting a tariff policy of Protection and the development of secondary industries.

Generally speaking, the discussion at the Bankers' Institute appears to have had no effect on the various State Governments, all of which continued either to borrow or to make arrangements for borrowing. But

a new feature now entered into the situation. The Governments resorted to the issue of Treasury Bills to tide them over their difficulties, but, instead of using this as a temporary measure, it was used to continue the policy of public works.

In 1892 the Premier of New South Wales, Mr. Dibbs, visited London, and discussed with Lord Rothschild a proposal for converting the whole of the New South Wales public debt, and he won from that financier the admission that such a scheme was a practical one.[1] Mr. Dibbs, however, returned to Australia without having succeeded in his mission.

After the crisis of 1893 for a period of about eight years there were several estimates made of Australia's overseas indebtedness. We can lay these on one side for a moment in order to finish the story of the attempts to unify the debts of the various States; we can then consider the estimates.

In 1896 Sir Phillip Fysh, Tasmanian Treasurer, proposed a scheme for establishing a Federal Finance Agency, with the Agents-General as managers. The function of the agency would be the conversion and consolidation of the public debts, the flotation of new loans and the giving of advice. This scheme was sent to all the State Governments for consideration, but nothing came of it.

In 1900 came the Federation of the Australian States. In 1904 Mr. William Knox, M.H.R., put forward a proposal for a Council of Finance to manage the public debt, to effect consolidations and conversions and to float loans. Nothing, however, resulted from his proposal.[2] In 1906 Sir John Forrest, the Federal Treasurer, had the general problem in mind when in London that year, and he actually had some proposals under consideration.[3] But the whole question was linked up with the proposal to transfer the State debts to the Federal Government. Upon this question the Premiers' Conferences, representing the various States, and the Commonwealth

[1] *A.I. and B.R.*, September 19th, 1892.
[2] *Ibid.*, October 21st, 1904. [3] *Ibid.*, June 20th, 1906.

Government could come to no agreement. Then the war intervened. The problem was finally settled by the establishment of the Federal Loan Council in 1924, and the transfer of the States' debts to the Federal Government. The Federal Loan Council was established at the suggestion of the Federal Government; it is made up of the Commonwealth Treasurer and the Treasurers of the various States. Its main function is the prevention of undue competition and clashing in the raising of loans. There is every reason to think that its functions will expand until it will eventually take over the whole management of Australia's public indebtedness. During 1924–25 the whole of the loans raised in Australia were raised in accordance with the plans adopted by the Council. During 1925 it was concerned with the conversion of the £67,000,000 war loan, and during this operation it allowed no other loan operation to take place. Up to 1925 it was customary for the Commonwealth and the States to raise their own loans in London or elsewhere, after the amounts had been previously agreed upon by the Council, but about the middle of 1925 the Council assumed the responsibility of raising the loans in addition to determining how much was to be raised. In 1930 it extended its activity to that of exercising some control over other loan operations for public bodies, such as water supply.[1]

We may now examine some of the estimates of colonial indebtedness. They are of two kinds—those made in Australia during the years 1893–1902, and those made in England for the years 1897, 1906, 1907 and 1910. The Australian estimates are those of the *Australasian Insurance and Banking Record* and of Nash, while the English ones are those of the *Quarterly Review*, Paish and Crammond.

On September 19th, 1893, the *Australasian Insurance and Banking Record* published the following details of Australian indebtedness, based upon the *Investors' Review* for August 1893, which was itself based upon Burdett's

[1] Vide *Commonwealth Year Book* in recent years.

"Official Intelligence of the Stock Exchange of London," 1893.

Item.		
Government Loans and Treasury Bills		£187,683,656
Railways, Share Capital		720,000
Debentures		2,444,700
Corporation Stocks		13,119,900
Banks: Paid-up Capital		6,913,415
Written-off Capital		700,000
British Deposits		43,147,000
Financial, Land and Investment:	Shares	13,986,973
	Debentures	22,503,533
Gas: Share Capital		666,971
Debentures		1,161,100
Miscellaneous: Share Capital		5,358,914
Debentures		7,070,593
Iron and Coal: Share Capital		931,559
Debentures		280,241
Mines: Share Capital		8,347,327
Debentures		88,130
Total		£315,124,015

Together with this list the editor published the following list of his own, giving a slightly different total, making a different grouping of the items and adding a list of the interest payable annually:—

Item.	Principal.	Interest Payable Annually.
Government Loans	£188,482,846	£7,419,856
Corporation Borrowings	16,799,300	817,983
Banking Capital supplied by United Kingdom	47,000,000	2,147,500
Capital supplied to pastoral and other Companies and invested by life offices in pastoral securities	53,440,132	2,538,465
Borrowed by Miscellaneous Companies	5,226,485	199,549
Mining Companies	4,778,725	
Total	£315,727,488	£13,123,353
Private British Capital on Mortgage—estimate	2,000,000	100,000
Total	£317,727,488	£13,223,353

The editor, however, informs us that his total still ignores £2,273,000 which has been lost at one time or another.

In January 1888 the same authority made an estimate of indebtedness per head, which was based on the statistics of Mr. T. A. Coghlan, the New South Wales statistician :—

1881 . . .	£34 0*s.* 2*d.*
1891 . . .	£49 14*s.* 11*d.*
1898 . . .	£52 2*s.* 4*d.*

In 1901 Nash produced the following estimate in a lecture which he delivered on July 25th to the Institute of Bankers of New South Wales; this estimate was discussed in full by the *Australasian Insurance and Banking Record* of August and September of that year.

Item.	Held Internally in £m.	Held in U.K. in £m.	Together.
Government and Corporation Loans	47	235	282
Banks, excluding free deposits .	23	18	41
Companies, excluding mines . .	45	68	113
Mining Companies . . .	32	67	99
Total	147	388	535

This was the position in 1900. Nash, in his estimate, then goes on to show the growth in the volume of securities held abroad, taking 1880 and 1900 as dates for comparison and confining the figures to securities held in London and to the growth in the private wealth in Australia and the growth of the external capital invested in Australia since 1863.

AUSTRALIAN SECURITIES HELD IN UNITED KINGDOM.

Item.	1880.	1900.
Government Debts . . .	£90,000,000	£220,000,000
Other Loans and Capital . .	60,000,000	180,000,000
Total	£150,000,000	£400,000,000

PRIVATE WEALTH AND EXTERNAL CAPITAL.

Date.	Private Wealth.	External Capital.
1863	£181,000,000	£25,000,000
1888	1,015,000,000	270,000,000
1899	1,079,246,000	400,000,000

Nash next shows what was the interest paid on the public debt of each State and the net revenue returned by each loan to each State Government. By subtracting the latter from the former, he arrives at what he calls the net burden of each State. These figures are set out in the following table, with the figures for New Zealand omitted :—

State.	Debt Interest.	Net Revenue.	Net Burden.
New South Wales . .	£2,369,000	£1,749,000	£620,000
Victoria	1,887,000	1,327,000	560,000
Queensland . . .	1,297,000	659,000	638,000
S. Australia . . .	990,000	658,000	332,000
W. Australia . . .	402,000	401,000	1,000
Tasmania	316,000	48,000	268,000
Total . . .	£7,261,000	£4,842,000	£2,419,000

Nash's next task was to show the distribution of the external indebtedness among the States; and its amount per head :—

APPROXIMATE INDEBTEDNESS TO MOTHER COUNTRY OF INDIVIDUAL STATES

State.	Government and Corporation Debts in £m.	Other External Capital in £m.	Together in £m.	Per Head in £.
New South Wales .	58	50	108	80
Victoria . . .	52	35	87	73
Queensland . .	35	17	52	103
S. Australia . .	23	3	26	72
W. Australia . .	10	30 [1]	40	220
Tasmania . . .	8	8	16	93
Total . .	186	143	329	

(*Note.*—The New Zealand figures are omitted.)

[1] Nominally £50,000,000.

Together with this table Nash presented another showing the size of the return on each type of investment in each State, dividing the type of investment into four classes :—

Item.	N.S.W.	Victoria.	Queensland.	S. Australia.	W. Australia.	Tasmania.
Government Debt.	3 5/8	3 3/4	3 3/4	3 1/5	3 1/2	3 5/8
Corporation Loans	4 3/4	4 3/8	3 5/8	4 3/4	4 1/4	4 1/2
Mines . . .	6 5/8	4 3/4	9 1/2	1 1/2	4 1/4	4 3/4
Other . . .	7	3 1/4	3 1/2	6	3 3/4	5 1/4
Average .	5	3 3/4	4 1/4	4 1/2	3 7/8	4 1/2

In 1902 Nash produced an edition of the *Australasian Joint Stock Year Book*. When it appeared the *Australasian Insurance and Banking Record* published from it the following table of Australian securities (paid-up) held :—

Item.	Amount.
Government Debts	£271,606,000
City and Suburban Loans	25,525,000
Banks' Shares	17,964,000
Bank Inscribed Stock	10,885,000
Banks' External Deposits	12,249,000
Insurance Companies	1,180,000
Gas and Water Shares	4,028,000
Gas and Water Debentures	1,335,000
Shipping Shares	5,680,000
Shipping Debentures	2,067,000
Trading, etc., Shares	59,071,000
Trading, etc., Debentures	39,858,000
Coal Companies	3,778,000
Gold Mines	61,234,000
Silver, Copper and other Mines . . .	17,701,000
Development and Mining Finance Companies .	7,263,000
Total	£541,424,000

This completes the Australian estimates. We turn next to consider the English estimates. The *Quarterly Review* for July 1907 discusses the whole question of colonial indebtedness, and sets down the total market value of British investments abroad at £3,220,000,000 in 1906, of which the Australasian share was, taking the

market value, £347,700,000, and this itself was a decline from 1897, when the market value was £353,000,000. It should be noted that, since these are Australasian figures, New Zealand is probably included. Even so the figure is lower than that of Nash, which was £400,000,000. For the year 1907 Sir George Paish produced an estimate of British overseas investments in an address to the Royal Statistical Society,[1] which was £2,693,738,000, of which 12% was in Australia (*i.e.* £319,648,560); while Crammond in 1911 gave the figure for 1896 as £323,000,000 and for 1910 as £395,000,000.[2] None of these estimates agrees, but they give a general indication of what the size of the Australian indebtedness was.

As far as can be ascertained, the general question of colonial indebtedness—or of Dominion indebtedness—has not been publicly discussed since the days of Nash in 1902. Attention has been centred on the public debt only, which, since the war, has reached a figure well over £1,000,000,000, including the debts of both the States and the Federal Government. Of this about half was incurred for war purposes, which sum, with the exception of approximately £92,000,000, which was raised in Great Britain, was raised in Australia.

We shall come to some of the problems raised in this discussion of colonial indebtedness again: they will reappear in the discussion on the central bank; they are not unconnected with the movement in Australia for bringing capital for investment from the United States; and, in an indirect way, they are involved in any consideration of the future economic policy of Australia, whether that be looked at in its internal or its Imperial aspect. They have also a definite relationship to the future development of the Pacific.

We may conclude this chapter by endeavouring to

1 "Great Britain's Capital Investments in Individual Colonial and Foreign Countries," *Journal of the Royal Statistical Society*, 1909.

2 "British Colonial Investments Abroad," *Quarterly Review*, 1911. Paish's estimate for 1910 was £301,521,000 for the Commonwealth of Australia (vide *Journal of the Royal Statistical Society*, Vol. LXXIV, p. 180).

summarise the outstanding matters that have been discussed in it. In the first place, the number of banks has been reduced since 1893 from twenty-six to sixteen, and, in addition, there have been ten amalgamations or fusions. The capital of the banks has increased from £16,911,699 in 1893 to £45,249,207; the reserves have increased from £10,803,306 to £35,411,969; and the branches from 1470 to 3246. Six new banks have come into existence, while five of the old ones have disappeared. As a result of the conditions created by the war, there was for a period of years a definite movement in the direction of obtaining money from the United States, though this movement came to a standstill. The general review of the condition of affairs revealed in our brief consideration of the position of colonial indebtedness and the difficult situations created by the exchanges, with no unanimity as to the cause of these difficulties or as to remedies for them, has begun to swing financial opinion in Australia in the direction of favouring the establishment of a central bank. We may therefore, with some advantage, turn our attention to the study of this new development.

CHAPTER VI

THE AUSTRALIAN BANKING SYSTEM IN RELATION TO CENTRAL BANKING

It is easy for the investigator, following in the wake of the Australian banking system, and not being responsible for steering it, to say that at such and such a time some method of controlling the system was desirable. What is much more useful is to trace the growth of the idea of centralised control. A suitable line of inquiry lies in the records of the three banking commissions that sat in 1887, 1889 and 1895. Though it is true that these commissions had specific terms of reference and took evidence relating thereto, it is surprising that there is little mention of the danger of the state of affairs that ultimately produced the crisis of 1893. The only portion of the evidence that really concerns us is that of the 1887 inquiry in Victoria, which dealt with the note issue. The Commission rejected the view of one of the bankers, a Mr. Park, that the note issue was a part of the Royal Prerogative, and hence that it should be controlled by the Treasury. Though rejected in 1887, this view was ultimately to prevail in 1910, when the Commonwealth note issue was instituted. But this view received short shrift in 1887.

The first real reference to the need for centralisation for Australia was made in 1892 by the Consul-General for Austria-Hungary, Mr. Pinschoff.[1] In an address before the Bankers' Institute of Australasia in Melbourne, in a discussion of the crisis that was already upon the country, he pointed out the necessity for a central institution which could hold the gold reserves of all the banks.

[1] *A.I. and B.R.*, September 16th, 1892.

He estimated that with the existing gold holdings of the Australian banks it would be possible to build up a reserve nearly as strong as that of the Bank of England. There was no suggestion of controlling credit, or of a bill market, or of anything of that nature.

In the meantime the crisis of 1893 occurred, and the next mention of centralisation was in 1894, in an address by Sir William MacMillan, M.L.A., a former New South Wales Treasurer, to the Bankers' Institute of New South Wales.[1] Sir William himself did not make any proposal, but he put forward the proposals of Mr. R. L. Nash for what was called a General Central Banking Reserve.[2]

The objects of Nash's scheme were fivefold:—

1. To provide a workable substitute for the existing system of isolated cash reserves, which were costly and ineffective.
2. To provide an automatic means of combination between the banks.
3. To render Government securities liquid and cash balances profitable.
4. To establish a central reserve of gold coin and Government securities under the joint direction of the banks and the Treasury.
5. To issue a uniform note absolutely secured and under State supervision.

These five objects were to be obtained by establishing a general reserve, to which all the banks were to contribute, as a minimum, in proportion to their liabilities. This fund was to be invested in Government stock by a committee of the banks, which would have a chairman from the Treasury. The existing note issue was to be given up, and in place of it the committee could issue notes, legal tender up to the amount deposited, and

[1] *A.I. and B.R.*, January 1895.

[2] Mr. R. L. Nash is an interesting personality. He was the editor of "Fenn on the Funds," also author of "The Banking Institutions of Australia," and financial editor of the *Daily Telegraph*, Sydney. He is always referred to in financial literature with very great respect.

these legal tender notes could be counted as cash in the banks' accounts. These notes held by the banks were not to be taxed, but those issued to the public were to be taxed 3%. As a safeguard against over-issue, Nash's idea was that directly a bank's issue exceeded its deposits with the reserve committee it was to increase its reserve accordingly. As a further safeguard, no note was to become legal tender until it was countersigned by the issuing bank. There was also to be a provision for convertibility.

With regard to the management of the central reserve by the committee of bankers under the chairmanship of the Treasury, Nash's scheme provided that the central reserve should be revenue-earning in the following way:—

1. The interest on the Government securities which the committee was going to buy.
2. The 3% tax on the notes issued by the banks.
3. The interest that would be received on exceptional advances that would be made either to the banks or to the Treasury.

What of profit was earned was to be divided into four equal parts. One would go to the Treasury, one to the Central Reserve Committee for the purpose of establishing a reserve to the existing central reserve, and two parts were to go to the contributing banks.

How far this scheme was discussed by the banks, the Treasury or the business community, it is impossible to say, for no record of such discussions exists. The editor of the *Australasian Insurance and Banking Record* wrote a leader upon the scheme, commenting favourably upon it, and stating, "Whenever an alteration is made in existing arrangements an attempt should be made to establish a federal circulation with one reserve."[1] In the previous year the same journal had referred to the discussion of a central reserve, but it was of the opinion that political union of the States would have to come first.[2]

[1] *A.I. and B.R.*, December 19th, 1894. [2] *Ibid.*, July 19th, 1893.

In 1895 there was a conference of bankers in Sydney, called to discuss several questions of a technical character. One of these questions was the future of the note issue, and it was suggested that the control of the note issue should be by a committee of the banks and the Government.[1]

The next reference to centralisation appears towards the end of 1895, when the Victorian Government appointed a Commission to inquire into the desirability of establishing a State bank, and to devise means of providing cheap money for farmers. This Commission presented a majority and a minority report. The essential points in the majority report were that the Bank should :—

1. Receive and pay out money in its savings department.
2. Exclusively control the note issue.
3. Lend on mortgage.
4. Trade upon credit.
5. Hold the Government account and administer the State debt.
6. Take over the uninvested portion of the State's Trust Funds.
7. Make loans to municipalities.

All these functions were to be performed by a State bank for Victoria, under the control of a Board of Commissioners. The minority report dissented from the finding of the Commission, and the *Australasian Insurance and Banking Record* commented unfavourably upon the report in a leader.

The ideas upon centralisation stirred up by the 1893 crisis seem to have become quiescent after the report of the Victorian Commission. Banking affairs were in the doldrums, and political and business interests were concentrated upon the problem of federating the Australian States into the Commonwealth of Australia. This movement led to the establishment of a journal called *United Australia*, and in 1901, when a Commonwealth

[1] *A.I. and B.R.*, July 19th, 1895.

had been decided upon, but before the first Parliament had been elected, Mr. J. T. Walker, Chairman of the Bank of New South Wales, Australia's biggest bank, published in that journal an outline of a scheme, on a Federal basis, for the prevention of crises. The title of the article was " Banking Crises—Outline of a Federal Scheme for their Prevention." The scheme was one concerned with the building up of reserves out of profits as a line of defence against raids upon shareholders' funds. As a scheme it concerned shareholders mainly, but it was the first sign for six years of any mention of the problem of stability in banking affairs.

In May 1901, however, the general managers of the Australian banks met in conference to discuss the distribution of the Commonwealth Government banking account, and to exchange views upon the basis of a note circulation, with the object of formulating proposals for submission to the Federal Treasurer when he took up the question of a comprehensive banking measure for Australia. These proposals, inasmuch as they were made public, were of a general character, viz.: (1) that the banks should continue to supply the currency under conditions that would continue to make it truly Australian; (2) that the currency should be well secured; (3) that the Government should take the profit.[1] These proposals resulted in no action, and the whole question of the note issue and of the centralisation of finance was not again discussed in public until 1905, when a person concealing his identity behind the title of " Economist " published a scheme for a Federal Bank of Issue in the *Australasian Insurance and Banking Record*.[2] The scheme itself was an interesting one, in that it attempted to combine, whether knowingly or not, the scheme of Nash in 1894 with that of the Victorian Commission in 1895, and, in addition, the new outlook born of the Federation of the States. The scheme was severely criticised by the editor of the *Australasian Insurance and*

[1] See *A.I. and B.R.*, June 20th, 1901, for a discussion of these proposals.
[2] April 20th, 1905, page 272.

Banking Record, and, as far as can be ascertained, it received no public support from any informed quarter. The details of the proposal are as follows:—

The Federal Bank of Issue was to be managed by three Commissioners. Its functions were to be: (1) to issue legal tender notes; (2) to be bankers to the Government; (3) to be the channel of payment and receipt by the Government; (4) to maintain a 40% gold reserve against the note issue. There were many other details of a minor character.

But the problem of a national bank and a national note issue was receiving attention from an unexpected quarter. The Australian Labour Party since federation had grown in strength, and its leader, Mr. Andrew Fisher, had had experience of the Treasury note issue in Queensland. Moreover, he was a book student of finance, as were so many of the Labour politicians. His party was in power in 1910, and during the early part of the year the possibility of a Federal note issue was seriously discussed. In July of that year a Bill was introduced bringing the matter before Parliament, and it was passed notwithstanding the opposition of the Associated Banks, which body was of the opinion that the Bill was unnecessary. In the same year the *Statist* (England) published an article on "A Suggested Australian Government Bank," which was vigorously criticised by the editor of the *Australasian Insurance and Banking Record*.[1] In 1911 the Labour Government passed the Act establishing the bank with wide powers, and when its first Governor was appointed, he announced in an interview to the Press that he wanted the bank to become like the Bank of England—to be able to stand behind the other banks in a crisis.

This was not the purpose for which the bank was originally conceived by that section of the Labour Party that was interested in financial questions. The purpose of that section was that the bank should compete with the trading banks, ultimately supplanting them, and this utterance

[1] *Vide* the issue of September 20th, 1910.

of the newly appointed Governor met with strong opposition from that section of the Labour Party which favoured the nationalisation of finance and banking. However, as we shall see, circumstances were against the Labour Party, for the bank had hardly established itself before the European War (1914–18) broke out. This new factor called a halt to the development of controversial political programmes. Then, owing to the artificial conditions engendered by the war, there was an intense development of secondary industry. And, finally, with the conclusion of the war the large banks of issue of the world and the authorities on banking questions suddenly set their faces in the direction of separating the task of providing the volume of credit from that of its distribution and administration—a point of view that was not known or understood in Australia. This development in banking ideas reached Australia at a time when the Labour Party was out of office; so that it was unable to retain the original constitution of the Commonwealth Bank had it desired to do so. This new development also caught the Associated Banks unprepared for giving practical effect to the new theories that had developed during the war.

We can perhaps best study this new situation by following through the story of the Commonwealth Bank, before we begin our study of the theory of central banking and its application to Australia.

The Commonwealth Bank was established in 1912 with an advance from the Commonwealth Treasury of £5000, and a staff made up of the Governor (Mr. Denison Miller) and a messenger, lent by the Treasury.[1] The Federal note issue as a function of the Treasury had begun a little earlier, with a gold reserve of 25% of the issue. One of the main methods of expanding the issue was a special arrangement whereby Treasury Notes were issued to the States in return for a 25% reserve of gold.[2] In 1914 the banks agreed to hand over to the Treasury

[1] Speech by Sir Denison Miller, *A.I. and B.R.*, March 21st, 1922.
[2] *Ibid.*, October 21st, 1914.

£10,000,000 of gold in return for £10,000,000 in notes, provided that the banks omitted to present the notes during the period of the agreement. The Commonwealth Treasury also agreed to advance to the banks notes in the proportion of three to one sovereign, plus a deposit receipt for the balance, to be repaid twelve months after the end of the war, the banks retaining the right to repay at any time previous to the date specified. It cannot be too clearly stated that the note issue had nothing to do with the Commonwealth Bank at the time.

The business of the bank in its early years was derived from keeping the accounts of the 320,000 soldiers who embarked with the Australian Imperial Force overseas, and from the issue of war loans, amounting in all to about £213,000,000. The bank, in addition to its war business, did some private trading, an outstanding example of which was the £1,000,000 overdraft that it gave to the Broken Hill Proprietary, Ltd., to enable that concern to embark upon its steel-making activities.[1] By the end of the war the bank had accumulated something more than £4,000,000 in profits. It should be remembered that it had no dividends to pay. In 1919, at the conclusion of the war, there was considerable discussion in regard to (*a*) the desirability of a Board of Directors for the bank, (*b*) the cessation of the Savings Bank business of the bank, and (*c*) the transfer of the note issue from the Treasury to the bank; but nothing was done in regard to the first two matters. In 1920, however, the note issue was transferred from the Treasury, not to the bank, but to an independent body known as the Notes Board, all rights of the Treasury in regard to the issue being transferred to the Board.[2] Under Section 1 of the new Act, the Board retained the right to issue notes against balances in London. In 1923 and 1924 exchange difficulties arose because the banks said that they had their balances in London, and were unable to prevail on the Notes Board to issue a supply of notes to an amount

[1] Vide "Silver to Steel," a book issued by the Proprietary.
[2] Commonwealth Bank Act, No. 43, of 1920.

which the banks considered necessary, because the Board feared inflation. During the same year the Commonwealth Bank Act was amended and some important changes were made. The bank was to have a capital of £10,000,000, of which £4,000,000 was to come from its reserves and £6,000,000 from the Government; there was to be a Board of Directors with a rotary system of retirement, so that it would be impossible for any Government to swamp the Board with its nominees; the private trading banks were all to make their clearances through the Commonwealth Bank; the Notes Board was abolished and its functions were transferred to a special department of the bank. Finally, the bank was to discount and re-discount bills at a published rate. Shortly after this an agreement was reached with the banks whereby the exchanges, which were upset at the time, were put right. This was an agreement by which the wheat and wool exchange was pooled, the Commonwealth Bank helping by making available the additional currency that might be necessary. This was precisely what the Notes Board had been unwilling to do in sufficient volume to satisfy the banks. In this agreement the Commonwealth Bank was to arrange the allocation of the pool. In 1929 the exchanges were again disorganised, and the Act was again amended, giving the bank power to require returns from people holding gold, power to acquire gold, and power, in conjunction with the Commonwealth Treasurer, to control the export of gold.

We may now resume the discussion that was broken off in order to sketch in the story of the Commonwealth Bank. There it was stated that the rapid development of the idea of central banking and its appearance in the forefront of financial controversy found Australian banking ideas unprepared to meet the new situation. The position in Australia in regard to the whole question of central banking was rather complicated. There already existed a strong Government Bank—the Commonwealth Bank—but it satisfied no one. The trading banks resented its existence, because it was a serious com-

petitor with them. They feared that at any time the Labour Party might gain a majority in Parliament and convert the bank into an instrument for nationalising the private banks. They viewed with apprehension the possibility that the Commonwealth Bank might be converted into a central bank, though they realised that a central bank was required to obtain the maximum of efficiency from the Australian banking system. Within the Labour Party itself there was a feeling that the Commonwealth Bank was in process of being diverted from its original purpose, and that, if central banking functions were added to its existing functions, it might become an institution which would stand behind the trading banks, instead of becoming an institution for gradually getting rid of them. It is worth while tracing through the development of this situation. On January 7th, 1924, during the period when the Australian exchanges were functioning unsatisfactorily in that year, the acting-Prime Minister and Treasurer, Dr. Earle Page, speaking at Lithgow, in New South Wales, on banking and currency, said: "Under the artificial conditions of exchange which obtain owing to the absence of a gold standard, a strong central bank might have relieved the situation and enabled our financial institutions to have acted in concert and with a definite policy aimed at a return to normal conditions. It is essential that we should have a bank—a bank of banks—not merely a bank that would compete with others." [1] This is the first definite statement since the war of an Australian attitude to central banking. In July 1924 Dr. Earle Page made good these words by introducing a Bill, the purpose of which was to make legal provision for turning the Commonwealth Bank into a central bank. During the debate in the House of Representatives, Mr. Charlton, the leader of the Labour Party, then in opposition, moved an amendment to the motion for a second reading, to the effect that in order to preserve the bank as a national institution, financial experts fully

[1] *A.I. and B.R.*, January 21st, 1924, page 27.

employed in the service of the bank be appointed to the management, rather than those with squatting and commercial interests who were opposed to national banking.[1] It should be noticed that this utterance of the leader of the Labour Party does not condemn the idea of turning the Commonwealth Bank into a central bank; all it does is to oppose the appointment of squatters and men of commerce to the Board of Directors.

To pass an Act for a central bank does not mean that you will have a central bank. This further step requires that the habits of the banking community shall have reached such a stage that every one is ready for the change. This, however, was not the case in Australia. On October 30th, 1924, *The Times* had an article entitled "Australia's Central Bank," in which it was assumed that both India and Australia had central banks. In neither case was it true. The Indian central bank was held up by an adverse vote of the Assembly, while in Australia, though there was the empowering Act, the practice of central banking had not come into operation.

During 1926 the Chairman of Directors of the Commonwealth Bank visited England and discussed the position with the Governor of the Bank of England. He arranged for Sir Ernest Harvey, the Comptroller, to visit Australia, so that the central bank there might be co-ordinated with the Bank of England and other central banks within the Empire.[2] All this indicates a willingness on the part of the Commonwealth Bank authorities to become a central bank on Bank of England lines. Sir Ernest Harvey did visit Australia, and he discussed the whole central banking problem with the Australian bankers. We shall consider his views later. In February 1927 Mr. Theodore, later to become Treasurer of a Federal Labour Government, speaking at Rozelle in New South Wales, said, in discussing the attitude of the Labour Party to the new developments in the Commonwealth Bank that, "if the Commonwealth Bank ceased to

[1] *A.I. and B.R.*, July 21st, 1924.

[2] South Africa is the only place where there is one.

become the competitor of the Associated Banks by becoming a central bank, it would strengthen the political and strategic power of the Associated Banks, but would weaken the independence of the Government in money matters." [1] Strictly speaking, these remarks of Mr. Theodore in no way commit his party to opposition to central banking as a function of the Commonwealth Bank—all they do is to state that, if by becoming a central bank the Commonwealth Bank ceases to compete with the trading banks, such a state of affairs would strengthen the position of certain economic groups and weaken that of the Government. As a matter of fact the constitution of the central bank of South Africa permits that bank to compete with private banks, though it was understood that this was a reserve power only to be used if the private banks developed monopolistic tendencies and held the community to ransom.

On this specific point—competing with the private banks—the Chairman of the Board of the Commonwealth Bank, Sir Robert Gibson, at Perth, Western Australia, on March 29th, 1928—that is, eleven months after Mr. Theodore made his speech at Rozelle—said, " The present Board of the Commonwealth Bank desire to make it ' The Bank of England ' of Australia." [2] He then proceeded: " Parliament in its wisdom has decided that the Commonwealth Bank should trade, a power which the Board proposes to exercise with discrimination, but not aggressively against the banks which have individually and collectively done so much for the benefit, prosperity and stability of Australia." [2] He also went on to refer to the close touch that was maintained between the Bank of England and the Commonwealth Bank. These remarks of the Chairman bear out the fears of Mr. Theodore with regard to the intention of the Directors of the Board. In effect the Chairman said, that though the Bank had the power to trade, it was not proposed to use that power aggressively.

[1] *A.I. and B.R.*, March 21st, 1927, page 190.
[2] *Ibid.*, April 21st, 1928, page 289.

This discussion brings out into clear relief the facts of the situation, viz.: (1) that after 1924, and up to 1929, the Commonwealth Bank had the constitution of a central bank; (2) that the type of central bank which the Board of Directors of the Commonwealth Bank wished it to become was the Bank of England type; (3) that, though the Bank had the right to trade, it was not proposed to make any aggressive use of that right; (4) that the Labour Party was of the opinion that these developments would (*a*) strengthen the political and strategic power of the Associated Banks and (*b*) weaken the financial power of the Government.

What these facts did not explain were the very things about which information was wanted. If the Commonwealth Bank was going to be a central bank, how was it going to control the volume of credit in the special circumstances which existed in Australia? Further, why must the Commonwealth Bank be made the central bank, when it already had heavy trading commitments? And, finally, if the Labour Party thought that the Commonwealth Bank was being used for a purpose which was inimical to the welfare of Australia, what did it propose to do about it? To the first two points Mr. Riddle, the Governor of the Commonwealth Bank, gave a reply, when he was giving evidence before the Royal Commission on the working of the Federal Constitution in 1928. He said, *inter alia*, " Such a bankers' bank could not be brought into existence in the Commonwealth other than by the Commonwealth Bank, unless it had control of the note issue. The amount of the re-discounting business was very small." This reply does not strike one as being clear. But possibly what it was intended to convey was this: the Commonwealth Bank was the only possible institution that could be made into a central bank, since it had control of the note issue. The other method of controlling the volume of credit—the re-discounting function—was not highly developed in Australia.

In regard to the third point—the attitude of the Labour

Party to the central bank—Mr. Scullin, the leader of the party and at present (1930) Prime Minister, said in a speech at Richmond, Melbourne, on October 4th, 1928, "It is the Ministry's boast[1] that it has made the Commonwealth Bank into a bankers' bank. A Labour Ministry, however, will convert it into a people's bank, as originally instituted. Its management will be free from political control, and it will be encouraged to extend its power and influence as an important factor in our national importance."[2] If Mr. Scullin really meant what he said, this would involve: (1) the abolition of the Board of Directors and the return of one-man control—control by the Governor; (2) the return of the note issue to the Treasury; (3) the suspension of re-discount functions, and (4) aggressive competition with the trading banks with the object of absorbing their business. Whether or not any attempt would be made to control the volume of credit, and what means would be adopted for doing this, did not appear.

In 1930 the Labour Government was returned to power. It was a matter of speculation how the Labour Party would fulfil its election pledges in regard to the central bank. On the hustings Labour politicians had expressed themselves as being in favour of a central bank, and at the same time in favour of the nationalisation of finance. The new Government met the situation by taking steps to deprive the Commonwealth Bank of those central bank functions which it did possess, and by creating a new bank altogether to perform the function of a central bank. This new bank is discussed later in this chapter. On April 2nd the new Central Reserve Bank Bill was introduced, and on April 30th it came up for its second reading, and in due course passed its third reading. About the same time another Bill was introduced to define the functions of the Commonwealth Bank. In this way the Government has met the general feeling that a central bank was required for

[1] *I.e.* the Bruce–Page Ministry.

[2] *A.I. and B.R.*, October 22nd, 1928, page 853.

Australia. At the same time it did not throw away the original weapon that it had forged for the nationalisation of finance; instead, it improved that weapon and fashioned it more to its own liking. The work of the Government was arrested by the opposition of the Senate, and final action in regard to both Bills has been postponed to 1931 or later.

We have now before us, in some detail, the story of the development of centralised control in banking matters in Australia. It would be fair to say, from the evidence presented, that the idea has gone through two stages: first, that concerned with the note issue and a reserve of gold located in a pool to be used to support all the banks in the event of a crisis; secondly, that concerned with the scientific control of credit. The former idea developed during the period 1887–1914; the latter, after the war. Until the conclusion of the war there was in Australia no public discussion of credit control as a function of a central bank by means of buying and selling securities or by means of a bank rate.

We have also followed the growth of the Commonwealth Bank and the controversy that has arisen about its true place in the national economy. At the same time we have noticed the relationship of certain events to the question of central banking. These may be set out as follows:—

(*a*) The failure of the trading banks to make their policy effective after 1888 and up to 1893.

(*b*) The fact that at different times, notably in 1922–24 and in 1929–30, the trading banks were unable to handle satisfactorily the exchange situation.

(*c*) The whole question of colonial indebtedness and the effect of the import of capital upon the price level. With this problem must be considered the emergence of New York as a possible competitor with London as an exporter of capital to Australia or as a purchaser of Australian securities.

All these questions are the concern of a central bank as conceived in the modern post-war sense, for no one would expect trading banks, whose main concern is the welfare of shareholders and the making of profits, to handle these questions in an impartial way, nor would they have power to do so if they had the impartiality.

It may be admitted, at the outset, that from 1924 to 1930, during which time attempts were made to refashion the Commonwealth Bank into an institution that functioned properly, there was nothing but failure to effect this object. This failure may be set down to three reasons. First, the Government and the Commonwealth Bank received but little support from the trading banks in the very difficult object which the Government and the bank had set out to achieve; the banks maintained that they could not support a central bank which competed with them and which might at any moment be turned into an instrument for nationalising the banks; the Government and the Commonwealth Bank felt that they could do nothing unless the Commonwealth Bank could hold some of the deposits of the trading banks. The second reason for the failure of the Commonwealth Bank to become a central bank was that there were lacking two of the three instruments that are essential to credit control—rediscount facilities and a recognised security market of reasonable size. The third reason, which is largely dependent on the second, was that no one in Australia has yet developed central banking habits and a central banking outlook.

The first of these reasons for failure will no longer exist if the new Central Reserve Bank Act comes into operation, because the new bank will hold the reserves of the trading banks and it will not compete with them for business. There remain still the other two reasons for failure, and until the new bank begins to function there is no knowing what success it will have in respect of a bank rate and the purchase and sale of securities. Moreover, in adopting a bank of the Bank of England type of central bank, Australia may have adopted one which is unsuited

to her needs. In these circumstances, therefore, we can with advantage examine very carefully the whole question of central banking, in the hope that our inquiry may throw some light upon what is now Australia's major financial problem.

To judge by the practice of the outstanding central banks of the world, the idea behind a central bank is that the price level of a country shall be kept as stable as possible, inasmuch as it is dependent upon monetary factors. But since Governor Strong once denied that the policy of central banks was to stabilise the price level, all we can perhaps say is that the idea behind a central bank is to bring about stable financial conditions within a country. The best way of ensuring this stability is to separate the activity of lending credit from that of determining the amount to be lent, and to hand over this latter function to a special body set up for the purpose. This body—the central bank—then proceeds to make a specialised study of the economic and financial situation, and as a result of this study, it decides upon a certain course of action. The next step is that the central bank shall be in a position to enforce its will once this decision has been made, and in order that this may come about, certain powers are given to it by means of which the volume of credit may be contracted, expanded or allowed to remain the same. This is only a more recent view of the theory of central banking; a more conservative one—and one that is now losing ground—is that a central bank is set up in order to give to a community the advantages which arise from the use of paper money without, at the same time, causing the community to suffer from the disadvantages of a paper currency.[1]

What are these powers which are given to a central bank in order to place it in a position to enforce its will on the community? In the first place, there is control of the note issue. It is not essential that a central bank should hold the power of issuing notes—for central banks have been known to function without it—but on

[1] Leaf, "Banking," chapter on Central Banking, page 78.

the whole it is desirable that it should. By controlling the medium into which the credit is often turned before it is used, it is claimed that a definite restraint can be placed upon an undesirable expansion of credit. The next power which a central bank requires to have if it is to enforce its will, is that of determining what shall be the bank rate. This term has a different meaning in different countries, and without describing some of these meanings in detail, it is sufficient to say that by the bank rate is meant some device whereby the banking community in general may be informed of what is the state of credit. The usual thing is for the central bank to quote something publicly that is akin to the rate of interest, so that when this quotation rises people may know that credit is to be restricted, and when it falls that credit is to be made more available. The third power claimed by a central bank is that of holding some of the deposits of the trading banks as a reserve against possible contingencies. The proportion of the reserves of the trading banks that is held differs in different countries, but the essential thing is that they should be mobilised at some central point, so that they can be used, if necessary, at any threatened point. The fourth instrument claimed for a central bank is the right to buy and sell securities in the open market on its own initiative. The importance of this power lies in the fact that by this means the central bank is able to increase or decrease the volume of cash in the possession of the trading banks, and, since the volume of credit which these banks can loan out depends on the amount of their cash holdings, it is clear that the power to increase or diminish these cash holdings is a most effective one. By withdrawing cash from the commercial banks, the central bank is in a position to compel a contraction of credit, and by buying securities and releasing cash for the use of the trading banks the central bank can, of its own accord, relieve a condition of stringency or anticipate one that is expected to develop.

These four powers which are claimed by a central bank are not all the rights that are claimed for it in order

that it may function efficiently, but they are the essential ones. The other rights claimed are those of holding the Government account, of acting as financial agent of the Government, of handling the Government's loans. We can perhaps best sum up what has been said already about the powers of a central bank by quoting the evidence of Mr. Montagu Norman, the Governor of the Bank of England, given before the Royal Commission on Indian Currency and Finance in reply to a question upon the duties of a central bank:—

> "It should have the sole right of the note issue; it should be the channel, and the sole channel, for the output and intake of legal tender currency. It should be the holder of all Government balances; the holder of all the reserves of the other banks and branches of banks in the country. It should be the agent, so to speak, through which the financial operations at home and abroad of the Government would be performed. It would further be the duty of a central bank to effect, as far as it could, suitable contraction and suitable expansion, in addition to aiming generally at stability, and to maintain that stability within as well as without. When necessary it would be the ultimate source from which emergency credit might be obtained in the form of re-discounting of approved bills, or advances on approved short securities, or Government paper."

Having sketched in outline what is the theory of a central bank, we can next see how this theory works out in practice by examining the operation of two types of central banks, viz., the Bank of England and the Federal Reserve System. It will not be necessary to do more than this because, in principle, the Bank of England represents the continental type of central bank, whereas the Federal Reserve system represents the main departure from that type, with decentralisation as its main feature. When we have done this, we can examine the application of central banking theory and practice to a Dominion, such as South Africa, and the possibility of developing a central bank in Australia.

In England the central bank functions in the following way. It has the sole right of the note issue, and its notes are legal tender. The bank can issue bank notes

up to the amount of gold and gold bullion in the issue department, and, in addition, it may issue up to £260,000,000 in excess of those notes secured by gold. This £260,000,000 is referred to as the "fiduciary issue," and it can, after consultation with the Treasury, be decreased or increased. The "fiduciary issue" is covered by securities and a little silver. Each week the Bank announces its bank rate, *i.e.* the rate at which it is prepared to discount approved bills, but the commercial banks do not take their bills to the Bank of England, nor do they, in any direct way, borrow from the bank. If, for any reason, the commercial banks want money, they call in the advances made to brokers and discount houses, and these institutions, in order to replace the funds which they have handed over to the commercial banks, take their bills to the Bank of England and discount them. When the bank rate is high they will avoid doing this as far as possible, and when it is low they will be likely to do more discounting. This rise and fall in the discount rate of the Bank of England is one of the ways in which the use of credit is encouraged or discouraged.

The other form of credit control by the Bank of England lies in its open-market dealings, and these are of three kinds: first, for the investment of its funds; secondly, as a means of restricting the amount of cash in the possession of the commercial banks, and to do this securities are sold; thirdly, to increase the amount of cash with the commercial banks, and to do this the bank buys securities. The bank also deals in gold and in foreign exchange.

We next proceed to consider the organisation of the Federal Reserve System. It is quite differently conceived from the Bank of England. It is a decentralised or regional system, with each area self-governing and independent, and the private banks in each area play a considerable part in the work of the reserve bank for the region. This is done through the fact that each member bank has contributed the capital of the reserve bank and has taken a part in the election of a number of the

directors of the reserve bank. In England there is one central bank, whose capital is privately contributed and whose shareholders elect the directors. In America there are twelve central banks, whose shareholders are the commercial banks in each area. To get a similar state of affairs in England, the Bank of England would have to be decentralised, with reserve banks in Manchester, Birmingham and Glasgow and elsewhere, to each of which the local banks would contribute capital and to whose boards these banks would elect directors. In the United States these twelve reserve banks have over them the co-ordinating authority of the Federal Reserve Board, and the relation between the Board and the Reserve Banks is direct and intimate. In England, though the commercial banks confer with the Bank of England, there is no direct relationship between them. In the United States the Federal Reserve Board appoints three of the nine directors of the Reserve Banks, and the Reserve Bank Chairman is the agent of the Federal Reserve Board. The Board also has the power of inspection and examination of the affairs of the Reserve Banks. The note issue in the United States has a proportional instead of a fixed reserve, as in England, and, though it is the member banks which hand these notes to the public, these have to be obtained from the Reserve Bank, which, in turn, obtains them from the Reserve Board by making application for them through the agent of the Federal Reserve Board. These notes are issued at the discretion of the Reserve Board, and on its behalf by the Treasury and the sub-Treasuries. The Reserve Banks must hold a reserve of 40% in gold against the notes, and the balance in securities, or, if the Reserve Board deems it necessary, additional securities over and above 60% must be deposited. A part of the gold reserve held by the Reserve Bank must also be lodged with the Treasury—not less than 5%.[1] The way in which the commercial

[1] *i.e.* 5% of the amount of notes issued, less gold or gold certificates held as collateral, such gold to be reckoned as part of the requisite 40%.

banks put themselves in funds in the United States is by going direct to the Reserve Bank and obtaining an advance against securities, or by discounting bills, whereas in England the commercial banks would call in short loans from the discount houses and thus drive them to the Bank of England.

In regard to the discount rate, the Reserve Banks fix their own, and submit it for approval to the Federal Reserve Board; if it is approved by the Board, it then becomes the official rate for the district concerned. There is no uniform discount rate for the whole of the United States; each district may have a different rate, and, in fact, frequently does. The Reserve Banks buy and sell securities in the open market for the purpose of investing their funds, or to increase or decrease the quantity of cash in circulation. In the question of the "eligibility" of paper for discount brought to the Reserve Banks by member banks, it is the Federal Reserve Board which lays down what constitutes eligible paper.

In general it may be said that the instruments for controlling the volume of credit that are used in the United States are the same as in England. The difference between the two systems lies in the way in which these instruments are used and in the extent to which, in the United States, there is an allocation of power between the Federal Reserve Board and the Reserve Banks, an allocation which is the distinctive feature of the Federal Reserve System.

With this preliminary sketch of the Federal Reserve System, we may now look at it more closely, examining first the Reserve Banks, and then the Federal Reserve Board.

The Federal Reserve System, in setting up the Reserve Banks, really set up a central bank for each economic district of the United States, with powers almost amounting to those possessed by any other central bank. The Reserve Banks keep the accounts of the State Treasuries, they receive deposits, discount bills, deal in acceptances, accept bills drawn upon them, make advances to member banks, buy and sell debentures, buy and sell in the open

market both at home and abroad, fix rates of discount—subject, of course, to review by the Federal Reserve Board—and they have power to deal in the buying and selling of gold. The only important central bank power which the Reserve Banks do not, theoretically, possess, is that of control of the note issue; though they do actually issue notes to member banks, they have to obtain these notes from the Federal Reserve Board by applying for them and by depositing securities, and under Section 16 of the Act the Federal Reserve Board has power to grant or reject any application; hence, the decision as to what shall be the volume of the note issue rests—theoretically at least—with the Federal Reserve Board.

With regard to the composition of the boards of the Reserve Banks, there are nine members, of whom six are appointed by member banks, and three by the Federal Reserve Board. Of the six appointed by the member banks, three directly represent them and three are elected to represent commerce, agriculture and industry. Thus each Federal Reserve Bank is at the head of the banking system of its own economic area, and there is upon the Board of Directors a strong element of democratic control recruited from within that area, and supported by the fact that the capital of the Reserve Banks is contributed within the area by the banks who are members of the Federal Reserve system. The power and point of view of this board are, however, tempered by the presence of three directors appointed by the Federal Reserve Board. Finally, so as to concentrate the reserve power of the member banks in the Reserve Banks, it is required that the member banks shall deposit with the Reserve Banks a varying percentage of their time and demand deposits. This system functions within each reserve area in the following way: the public deals with the member banks, and not with the Reserve Banks. If the member banks want funds, they either discount bills with the Reserve Banks or secure advances from them. If the Reserve Banks wish to curtail credit, they raise their discount rate—subject to the consent of the Reserve Board—

raise their overdraft rate and sell securities in the open market; they may use all or any one of these powers. If they do not want to restrict credit, they reverse the process.

We thus have a series of self-governing central banks concerned with the financial welfare of a definite economic area. The next question is, How is it possible to bring about a uniformity of financial policy among twelve banks whose directors are thinking mainly of the welfare of certain economic areas? This task is attempted by the Federal Reserve Board. This Board consists of seven members, two of whom are Government officials, viz. the Secretary of the Treasury—who is the Chairman of the Board—and the Comptroller of the Currency. The other five members may not be bankers, though two of them must have had banking experience; they may not be Senators or Representatives, and not more than one may come from any one reserve area. These five elect the Governor and the Vice-Governor of the Board. This Board is one of the most powerful administrative boards in the world, and its task is that of regulating the Federal note issue, of supervision and of inspection. Its powers of supervision and inspection are as follows: to examine the books and the affairs of the Reserve Banks, to suspend reserve requirements for a period not exceeding thirty days, to remove or suspend officers of the Reserve Banks or directors, to secure the writing off of doubtful or worthless assets, to suspend Reserve Banks and to administer them or re-organise them.

From the composition of the Reserve Board, and from the duties of supervision and inspection with which it is charged, the Board is in an unusually strong position to look at financial questions from a national point of view; and in its task it is aided by an advisory council made up of twelve men chosen from each of the boards of the Reserve Banks. The function of this council is to call for information and to make oral or written recommendations to the Reserve Board about discount rates, re-discount business, note issue, reserve conditions,

purchase and sale of gold or securities by reserve banks and open market operations.

It can thus be seen that, though in principle there is no difference between the Federal Reserve System and the Bank of England—for they perform the same function and use the same instruments of control—yet in the way in which these functions are performed and in the manner of distributing the instruments for use, the two institutions are as different as it is possible for them to be. The Federal Reserve System is designed for a continent, and not an island; it is designed to suit a wide variety of forms of industry where considerable allowance has to be made for local differences; it is designed for a self-contained country where foreign trade, though important, is a secondary consideration; it is designed for a country where agricultural and industrial interests are almost balanced; and, finally, like the American constitution, it was designed after local interests had established themselves firmly and at a time when they were prepared to give over only those powers which it was deemed to be absolutely necessary to surrender. Right throughout the system there is clearly to be seen the evidences of compromise. As in the case of the Federal Constitution, "the counsel of the wise prevailed over the prepossessions of the multitude" in framing a system and in apportioning the balance of power.

The Bank of England conforms to none of these things. It was not designed for a continent, but it was designed for an island-empire with a high concentration of industrial power within the island and a dependence on ther emote portions of the Empire for food supply, and with the whole world as a field in which to invest its savings. In England the Bank of England came first in point of time, while the modern industrial banks came later. In the United States the commercial banks came first and the Reserve System came last. The Bank of England was not concerned with the task of balancing conflicting industrial interests within the country; it was, and is, concerned with the task of balancing internal

interests against those outside England and, in some cases, outside the Empire. The foreign exchanges are vital to the Bank of England, whereas to the Federal Reserve System at the time of its inception the foreign exchanges were not vital, though they were not unimportant.

We have now before us the general idea of central banking and of its operation in two forms—that of the Bank of England and that of the Federal Reserve system. The only British Dominion which has had experience of central banking has been South Africa, so that the next step in our line of march will be to examine the Reserve Bank of South Africa as it is enshrined in the "Report on the Resumption of Gold Payments by the Union of South Africa." [1]

The report claims that the functions of a central bank are three-fold, viz.:—

1. The issue of notes.
2. The holding of the legal reserves of the banks.
3. The rendering of certain services to the public, such as:—

   (*a*) Conserving the money market.
   (*b*) Maintaining the monetary standard.
   (*c*) Ensuring the public equitable rates of exchange.

But in order that it may be a self-supporting institution it must be able to make some profits, and it is therefore suggested that, while performing the above three functions, it should also operate in the open market, make advances on bills and promissory notes, invest in Government securities, extend its power of purchasing bills to include bills of 120 days and, finally, extend the volume of its gold balances abroad.

The report generally sets out the structure of a central bank very much on Bank of England lines, but with certain minor differences to meet the special circumstances in South Africa. There are two matters of particular importance which should claim our attention: the first

[1] U.G. No. 13, 1925, compiled by Dr. Kemmerer and Dr. Vissering.

has reference to certain steps that need to be taken to improve the working of the Reserve Bank, and the second refers to the opinion of two private bankers in regard to certain objections which they raised to the central bank.

The changes suggested in the report in order to improve the working of the Reserve Bank are:—

1. That the Reserve Bank should invest in Treasury Bills.
2. That preferential treatment should be accorded to men wanting acceptances rather than open accounts.
3. That the Government should keep its account with the Reserve Bank.
4. That the Reserve Bank should open branches.

The two important things to notice here that would be of use to Australia, are those mentioned under headings 1 and 2. In South Africa, as in Australia, there was no such thing as the sale and purchase of securities as a method of reducing or increasing the supply of credit, and no such thing as a bill market and a bank rate. The suggestions under headings 1 and 2 were made with the object of setting up both a securities market and a bill market.

The other matter of interest in the South African report is the statement of Mr. J. B. Gibson, Senior General Manager of the Standard Bank of South Africa. He said that he was opposed to the extension of commercial facilities by the Reserve Bank if the private banks were to be asked to deposit their reserves with the Reserve Bank. It was pointed out in the report that power to compete with the private banks was given to the Reserve Bank in order that this power might be used to discipline the private banks if they showed a tendency to prey upon the community. It is also interesting to notice that Sir Ernest Chappell, K.B.E., a director of the South African Reserve Bank, was of the opinion that the establishment of the Reserve Bank was premature.

We may next consider the views of Sir Ernest Harvey. These appeared in an address which he gave before the

Victorian Branch of the Economic Society of Australia and New Zealand on April 8th, 1927, and which was published in the *Economic Record*, the journal of the Society, in its May issue, 1927.[1] The chief points in that address were as follows:—

1. A central bank should have the exclusive right of the note issue.
2. A central bank in its management and policy should be free of Government control and the influence of politics.
3. A central bank should be entrusted with the entire business of its own Government.
4. A central bank should be the banker of the trading banks, and should act as the settling agent for clearing differences between such banks.
5. A central bank should not ordinarily compete with trading banks for general banking business.
6. A central bank should ensure to the public the provision of adequate banking facilities.
7. A central bank should not take money at interest on its own account.
8. A central bank should quote publicly the rate at which it is prepared to discount approved bills, and should publish at regular and frequent intervals a clear statement of its position.
9. The assets of a central bank should be of the most liquid character possible.

The following are complementary to those already suggested:—

10. A central bank should not draw or accept bills payable otherwise than on demand.
11. A central bank should not engage in a general exchange business on its own account for the purpose of earning profits.
12. A central bank should not engage in trade nor have any interest in any commercial, industrial or other undertaking.
13. A central bank should have no branches outside its own country, but it may have agencies abroad.

[1] Sir Ernest's views have appeared in pamphlet form in London.

It is clear from an examination of this address that Sir Ernest Harvey had in mind for Australia a central bank along lines suggested by Mr. Montagu Norman in his evidence before the Royal Commission on Indian Currency and Finance. The main difference between the two expressions of opinion is that Mr. Montagu Norman outlined what a bank should do, and Sir Ernest Harvey, while stating what a central bank should do, emphasised what it should not do.

We shall next discuss the views of Dr. William Shaw and of Mr. Darling upon the question of central banking and the imperial exchanges. These views, though they have won very little support for themselves, are considered simply because they do set forth a point of view that is different from those which we have already been considering.

Dr. Shaw's[1] views have appeared in "Currency, Credit and the Exchanges,"[2] and in a more popular form in the *British Australasian*[3] for August 1928, January 1929 and February 1929. The essential difference between the views of Dr. Shaw and those opinions we have already discussed consists in this. Dr. Shaw is a supporter of the "banking" principle rather than the "currency" principle in regard to the note issue. He thinks that the Treasury should handle the note issue, as it did during the war, and that the notes should be paid for if they are wanted, and returned for value if they are not wanted. A central bank for Australia should consist of representatives of the trading banks, meeting under the chairmanship of the Commonwealth Bank, to consider only the problem of the volume of credit. The exchanges should be taken away from the trading banks and re-organised along lines similar to those of the Anglo-Egyptian exchanges, but under the control of the post office rather than of the banks.[4]

Mr. Darling's views are concerned more with the

[1] Dr. Shaw is the editor of the "Calendar of Treasury Books and Papers."
[2] Harrap. [3] Now the *British Australasian and New Zealander*.
[4] See also his "The Theory and Principles of Central Banking," Sir Isaac Pitman & Sons, Ltd., London, 1930; published since the above was written.

idea of an imperial bank for the Empire as a whole and the problem of the imperial exchanges than with the idea of central banking for a special Dominion. His views have appeared in an address to the Chamber of Commerce in Toronto, Canada, on September 22nd,[1] and in a series of addresses issued in pamphlet form, "Currency Co-operation in the British Empire,"[2] "The Economic Unity of the Empire,"[3] "Empire Consols,"[4] and "A New International Currency."[5] The object of Mr. Darling's proposals is the development of a unified Empire economic policy and a system of imperial exchanges, the purpose of which is to free the British Empire from its financial subservience to the United States and the liberation of British credit for the use of Empire development rather than for speculation. The scheme is much wider and more comprehensive than those which we have been discussing so far, but, since it bears directly upon the problem of central banking, we shall consider it here. Mr. Darling's[6] scheme was submitted to the Imperial Conference in 1923, when it was rejected, and in 1929 his scheme of Empire Consols was enlarged and submitted to the Committee which was working upon the scheme for the Bank of International Settlements at Baden Baden.[7]

What Mr. Darling proposed with this Imperial Bank was that in place of Dominion central banks there should be branches of the Bank of England. Empire gold should be pooled and the Bank of England note should become the basis of the Dominions' Note Issue. The capital of the Bank of England was to be increased to £20,000,000 by contributions from the Dominions, which were to have representation on the Court of the Bank of England. This Imperial Bank was to work a system of par exchanges much along the lines of the

[1] *A.I. and B.R.*, December 20th, 1920.
[2] Dec. 4th, 1922. [3] P. S. King & Son, 1926.
[4] *National Review*, April 1928. [5] London General Press.
[6] Mr. Darling is a Director of the Midland Bank.
[7] Since writing the above there has appeared "The 'Rex'—A New Money to Unify the Empire," P. S. King & Son, 1930.

Anglo-Egyptian exchanges. In fact, the scheme was an interesting financial counterpart to Mr. Lionel Curtis' proposals for Imperial Federation.

To arrange for the exchanges Mr. Darling proposed that £1,000,000,000 of the war debts of the Empire should be converted into Empire Currency Bills and placed in the hands of a Commission, which should be responsible for the operation of the exchanges. There was to be free convertibility between the Currency Bills and the currencies of the participating countries; currency was not to be issued except against gold or Currency Bills, and there was to be a reserve of gold against the Currency Bills of from 5% to 10% of the issue. When imports into Australia exceeded exports, the difference would be settled not by gold or by borrowing, but by Currency Bills. If the balance were the other way, Great Britain could pay in Currency Bills.

The portion of Darling's scheme for liberating British credit from dependence upon gold, and hence upon the United States, and for using that credit for the development of the Empire is as follows:—

1. Credit lent by the trading banks should be divided into two kinds: A credit and B credit. The former is to be used for productive purposes, the latter for other purposes, such as speculation.

2. There is to be a Banking Act setting up a credit board, which is to superintend the administration of the credit, and there would be credit boards in the Dominions.

3. "A" credit could find an outlet through the exchanges as outlined above.

4. There would be a gold pool of £250,000,000 within the Empire. Of this amount £50,000,000 would be used for supporting those note issues which require gold cover. The rest would be available to support the exchanges. Gold would be surrendered in exchange for Currency Bills and gold could be obtained by surrendering Bills.

By this scheme Darling hopes that gold can be relegated to the background, thereby making the internal

credit position of the British Empire less dependent than at present on the United States. By removing the fear of the United States, and by creating a means of discharging inter-Imperial obligations, it is hoped that it may be possible to concentrate upon the most efficient use of the savings of the Empire, *i.e.* of "A" credits, divorced from gold.

Mr. Darling's scheme has not been favourably received by those competent to judge it. But we may with advantage consider some of the criticisms. Sir Henry Strakosch [1] on September 9th, 1921, thought that it was undesirable to eliminate difficulties in the working of the imperial exchanges, since these were the very way of correcting the tendency to over-borrowing and overspending in any part of the Empire. Mr. Darling's object could be attained, it was argued, by the establishment of central banks in the Dominions, whose agents could keep in touch with the Bank of England. To this criticism we might add that provision was made in the 1924 amendment to the Commonwealth Bank Act for paying out notes in Australia against an accumulation of funds in London. What does not exist is the provision for paying out British notes in London against accumulated balances in Australia.

A second criticism of Mr. Darling's imperial exchange proposals came from the British Treasury, which stated that the proposals involved certain constitutional difficulties. What these were was not stated. If it is meant that the adoption of Empire Currency Bills means the invasion of the sovereignty of various parts of the British Empire, this is probably a reasonable objection. It is also conceivable that different degrees of inflation or deflation in the different parts of the Empire might make the conversion of Empire Currency Bills into domestic currency a serious difficulty, though the various parts of the British Empire, if they were all on a gold standard, could not be seriously out of relation to each other.

[1] Trade and Engineering Supplement of *The Times*, article entitled "Empire Finance."

The credit boards would appear to be unnecessary, but there is something to be said for a policy of using credit for purposes of production rather than for speculation. Economy in the use of gold would appear to be necessary if the gold standard is to remain. The issue of bills against gold as a medium of exchange merely changes the form of the instrument of exchange. But an imperial exchange currency will not cure inter-imperial economic disharmonies which mainly arise from sudden falls in world prices for staple commodities and the unintelligent use of borrowed money. The problem of economising in gold is more a question for the Bank of International Settlements. Since economy in the use of gold is a world problem, perhaps it can best be examined by that body.

We have now before us, in some considerable detail, the general body of ideas that are associated with the problem of central banking and its application to a new country such as Australia. We can now go forward and examine the new Bill which is before the Australian Parliament for the establishment of a central bank. This Bill was introduced on April 2nd, 1930. The bank is to have a Board of Directors of nine, consisting of the Governor, two Deputy-Governors, the Secretary to the Treasury and five others representing banking, commerce, industry, labour and primary production. The Governor is to be Chairman of the Board, and the whole Board is to be appointed by the Government. The Governor and the two Deputy-Governors are appointed to their posts in the bank not by the Board, but by the Government. The powers of the Board are to be exercised by all the members, but between the meetings of the Board, which take place monthly, the powers are to be exercised by an executive committee consisting of three, subject to the general control of the Board. The powers of the Board are as follows:—

1. To issue notes; these must be secured by 25% gold cover; and there is to be a 25% reserve of the first £20,000,000 deposit liabilities and

50% for that portion of the deposits which exceeds £20,000,000.

2. To buy and sell in the open market in the Commonwealth or abroad Cable Transfers, Bankers' Acceptances and Bills of Exchange.

3. To buy, sell, discount or re-discount securities.

4. To act as agent for the issue and management of Commonwealth and State loans.

5. To make advances to banks and to discount bills of not more than 120 days currency.

6. To establish accounts with other Central Reserve Banks.

7. To accept money on current account.

8. To make loans or advances against the Stock or Debentures of the Government of the Commonwealth or a State; or against six months' Trade Bills.

9. To make advances to the Government of the Commonwealth or a State.

10. To buy, sell and deal in specie, gold and gold dust.

11. To buy and sell securities for customers.

The bank may not do certain things, viz.:—

(*a*) Make advances against land.
(*b*) Engage in trade.
(*c*) Purchase shares, except in the Bank of International Settlements.
(*d*) Accept money on deposit or allow interest on current account, except Commonwealth and State Government accounts.
(*e*) Make unsecured loans or advances, except to Commonwealth or State Governments.

The private trading banks have to lodge their reserves with the Reserve Bank, 10% of demand liabilities and 5% of time liabilities. They have also to make weekly returns of their assets and liabilities and quarterly abstracts. The bank has also power to require returns from the banks and others of the gold held, and may compel the exchange of this gold for notes. Branches

may be established without the Commonwealth anywhere. The claims of the bank against other banks have priority over all other debts. The Commonwealth Government is responsible for all debts due by the bank.

The profits of the bank are to be distributed as follows:—

(1) Note issue profit goes to the Treasury.
(2) Other profits go to the "Bank Reserve Fund" till they reach £2,000,000.
(3) After that 50% goes to the National Debt Sinking Fund and 50% to "The Bank Reserve Fund."

It can be seen from this presentation of the Bill that the new Reserve Bank for Australia, in the powers which it is to possess, is closely modelled on the proposals of Sir Ernest Harvey, though there are certain additional powers which he did not mention, but which have been incorporated in the Bill. The Board of Directors is fashioned, in its main outline, after the Federal Reserve Board of the United States, while in providing capital for the bank neither the example of the Bank of England nor that of the Federal Reserve System has been followed. The capital is to be supplied by a transfer of £2,000,000 from the Commonwealth Bank. The future of this bank—the Commonwealth Bank—is provided for in another Bill, the terms of which allow for its continuance as a Government trading bank, divorced from Government control and the influence of politics, or so it is claimed by the Government.

The Reserve Bank has been given the four powers which all central banks claim for the control of credit. Section 8(*a*) gives it control of the note issue; Section 8(*b*) gives it power to deal in Bills of Exchange, and hence to fix a bank rate; Section 8(*c*) to buy and sell securities; while there is a clause, Section 10, giving it power to hold the reserves of the trading banks. On the other hand, Section 9 sets out very clearly what the bank may not do, and among these prohibitions are

those which will not allow the bank to engage in private trade, to receive deposits at interest or to make advances against land.

On the whole, as far as the *financial* powers of the Reserve Bank are concerned, everything seems to be on sound lines and in keeping with the most modern principles of central banking. But there are some points in the provisions of the Bill which call for comment and, perhaps, criticism.

It has already been demonstrated by the Commonwealth Bank Bill of 1924 that the mere provision of the power to discount bills does not mean that a discount market will be developed. Hence, since the provisions of the 1924 Act failed to produce a bill market, it is reasonable to suppose that a similar result will follow from the present Bill, unless some definite inducement is offered to business men to use the bill rather than the overdraft. Here the suggestion in the South African Report on the Resumption of Gold Payments, that a definite inducement should be offered to users of bills as against users of overdrafts, might well be adopted, though such a provision could hardly appear in the Bill; it would have to be done in other ways. What has been said about the development of a bill market can also be said about the development of a securities market. In fact, it might well be said that, instead of creating a new bank, the Government might have tried to utilise the existing Commonwealth Bank to develop both these types of markets, and this could have been done had the Commonwealth Bank been shorn of its trading functions on the one hand, and if the suggestion of the South African Report had been adopted on the other. But here there are two considerations to be weighed before condemning outright the establishment of the new bank. The first is this: the trading business of the Commonwealth Bank is considerable and the Bank has a widespread network of branches. To close down upon its trading functions would have meant a dislocation of the business of the people who had accounts with the bank;

there would also have been a volume of unemployment for the dismissed employees of the bank until they found themselves re-absorbed by the trading banks—if ever that took place. Secondly, by cutting off the trading functions of the bank, the Government—a Labour Government—would deprive itself of the means of nationalising the business of banking, which is part of its political programme. This, of course, is a political argument for the retention of the bank. Considering, therefore, the dislocation of business and the unemployment that might be caused, together with the political reason for the retention of the bank, it is reasonable to suppose that the establishment of a new bank, with full central bank functions, was an easier way out of the *impasse* than the curtailment of the trading functions of the Commonwealth Bank.

Criticism may reasonably be developed against the organisation of the directorate. Four of the nine directors are Government officers, as it were. They are appointed to their posts by the Government, and one receives his salary from the same source. These men are the Governor, the two Deputy-Governors and the Secretary to the Treasury. These four appointments undoubtedly give the Government a considerable influence upon the Board. When to this are added the facts that the other five Directors are Government nominees and the capital of the bank is provided by the Government, it would seem that the influence of the Government upon the Board is too great. There are several ways in which the Bill might be improved in this respect. A second Deputy-Governor appears to be unnecessary. The Governor and the Deputy-Governor might be appointed by the Board, as is the case in the Bank of England. The Chairman of the Board might be appointed by the Board also. These two improvements would weaken the influence of the Government upon the Board. Next with regard to the capital of the bank. Two million pounds appears to be a small sum for the capital of a Reserve Bank. This might with advantage be increased.

Next with regard to the source from which the capital is obtained. There are three other ways in which this might be raised. It could be raised wholly from private shareholders, who would then have the right of appointing the majority of the directors; it could be provided by the trading banks, who would then have the right of appointing the majority of the directors, as is the case with the Federal Reserve system. A third way would be for the capital to be provided by the Government, the trading banks and by private shareholders, and each of the parties could then appoint one third of the directors. This last method is favoured by the Australian Associated Banks.[1]

Though it is desirable that the trading banks should furnish details of their assets and liabilities as frequently as possible, it would appear that to demand this information weekly, as does the Bill, is unreasonable, in view of the large area of Australia and in view of the very wide distribution of the branches of the Australian banks. Returns from Port Darwin, from towns in Central Australia or from the north-west coast of Western Australia would be very difficult to obtain weekly. And if the telegraph were used, it would considerably increase the expenses of the trading banks.

We conclude our examination of the new Bill for the Reserve Bank by saying that in its *essentials* it is drawn on lines which would win the approval of almost all authorities on central banking. In minor respects there appears to be room for improvements. The constitution of the Board of Directors needs to be reconsidered so as to lessen the influence of the Government, and this includes a reconsideration of the method of raising the capital of the bank and of the amount; finally, the returns to be furnished by the private banks should be made with less frequency.

Before concluding this chapter we can consider whether or not a Federal Reserve system might not meet the needs of Australia better than a bank designed along the lines

[1] *Vide* "Commentary on the Proposed Bill for the Establishment of a Central Reserve Bank for Australia," John Sands, Ltd., Sydney.

of the Bank of England. At first sight it appears that such a system would fit in quite well. It would mean that the existing economic units—the States—would be the Reserve areas, with a Reserve Bank at the head of each area. The existing trading banks could contribute capital to the Reserve Banks and could appoint a proportion of the directors. These banks could fix rates—subject to the central authority—they could keep the accounts of the State Treasuries, they could receive deposits, discount bills and acceptances (assuming that there was a market for such things), accept bills drawn upon them, make advances to the trading banks and, in fact, do everything which the Reserve Banks do in the United States. Turning next to the question of a central authority such as the Federal Reserve Board—this could be set up in place of the new Central Bank or in place of the old Commonwealth Bank, though that institution might still remain, and this Board could be constituted in much the same way that the Board of the new Central Bank is constituted, or in the way in which the Board of the Commonwealth Bank is constituted, which is the same as the composition of the Federal Reserve Board. This Board could have the Commonwealth Note transferred to it, just as the present Central Bank has or the old Commonwealth Bank had. It could have the powers of supervision and inspection which the Federal Reserve Board has. On paper a Federal Reserve system could be just as easily adopted in Australia as a Bank of England type of central bank, if we lay aside considerations of tradition and sentiment, for Australian bankers are no more accustomed to an English type of central bank than they are to an American one. That is just the trouble—the central banking habit and outlook do not exist.

Are there any other reasons why Australia should adopt the Federal Reserve system? It would appear that there are. In the first place, Australia is a continent, and not an island, and her economic areas are clearly defined. Round these economic areas have grown up

the existing States, and with them a highly intensified system of State rights. A Reserve Bank would be a very suitable financial crown for these rights, and it would comfort many people to know that the credit policy of their State was going to be determined, in part, by men elected from the State. This consideration—the factor of local economic interests—has become of the greatest importance recently, when the logical results of tariff protection are beginning to appear as a tax on the agricultural States, while population is attracted to the industrial States instead of to those States which are bearing the cost of protection.

Secondly, Australia is not a country of highly intensified industrial activity, and she will not be so for many years—if ever. Hence, she does not necessarily require a banking system such as exists in Germany or England. At the present moment the proportion of people "on the land" is slightly above that of those engaged in industry, and this makes it undesirable that a credit policy should be fixed for the whole country from one centre; local considerations at times outweigh national ones. Though foreign exchanges are not unimportant for Australia, all that they mean is that there must be provided reasonable facilities for making payments abroad for goods imported and for being paid for goods exported. There is no such thing as dealing in foreign exchanges, as the term is understood in London, and there is no such thing as the export of capital for the purpose of foreign investment—nor will there be for many a long year. These may be considered as reasons why the Bank of England system of central bank is unsuited to Australia.

Is there anything to be said in favour of the English system, as against that of the American? First and foremost there is the argument of sentiment and tradition. The Australian banking system is a British one, with a very strong representation of British banks. What the Bank of England advises and wishes is bound to find acceptance. This does not necessarily mean that the English system is suited to Australia.

Secondly, there is the experience of the Reserve Bank of South Africa. South Africa is as much like Australia, geographically and economically, as the United States, and yet she has adopted a Bank of England type of central bank with apparent success. And what absence of success there is—such as the slow development of the bill market—is not the result of the type of central bank. South Africa, like Australia, can never develop a bill market of the type known in London, simply because neither of the countries is a creditor nation. The only type of bill market they will ever have, while they are debtor nations, will be an internal one, and that is very hard to develop, when the business men of these countries have for so long been used to the overdraft system. The giving of a preference to those who use bills rather than the open account, and the removal of stamp duties from bills, may help much in Australia to develop a bill market. The apparent success of the Reserve Bank of South Africa is a strong argument in favour of the Bank of England type of bank for the Dominions.

Thirdly, there is the question of branch banking. The banking system of the United States is made up of many thousands of individual banks without branches. There are some banks with branches, it is true, but, generally speaking, the branch system is not characteristic of the United States. Branch banking is characteristic of Australia. How is it going to be possible to adopt the Federal Reserve System without throwing into confusion the existing branch system? In the first place, it will be difficult to get a bank in Australia to subscribe six times, as a member bank, to the capital fund of six reserve banks. It could be done by offering six small amounts instead of one large one. It would be difficult for a strong bank like the Bank of New South Wales, with its head office in an industrial State and branches in agricultural States and New Zealand, to follow its own policy when this would have to be harmonised with the policies of six different Reserve Banks. Again, the Anglo-Australian banks will have some diffi-

culty in harmonising their instructions from London with the instructions of six separate Reserve Banks. On the face of it, it does appear that the existence of this strongly developed branch system does make the establishment of the Federal Reserve system in Australia promise to become very complicated.

On the whole, it looks as if the Bank of England type of central bank is what is required for Australia, but it needs to be modified so as to provide against the evils of centralisation and so as to incorporate some of the better features of the Federal Reserve system, such as giving consideration to local interests.

But it would appear that the main difficulty for any central bank in Australia will be concerned with the problem of relating the world price of her staple commodities and the volume of her overseas borrowings to her internal credit policy. Just how a central bank is going to be able to regulate the borrowing of the Commonwealth Government it is difficult to see. Just what a central bank could have done to foresee the present fall in wool prices, with the consequent reaction upon credit policy, and precisely what it could have done either to prevent its repercussions or, at least, to have softened them, it is very difficult to say.

There are one or two other points that may be raised. One concerns the issue of credit, and the other the note issue.

It should not be imagined that the establishment of a central bank is going to set Australia free from the difficulties of inflation and deflation. Nearly all Australia's troubles have come from the unrestricted issue of credit. It is the issue of credit for the production of goods which do not appear on the market for some time, or for financing land speculation, or for the creation of public buildings which are never sold to the public, so that the recovery of their price may offset the inflationary tendency — these are the factors that have created Australia's financial upheavals. Can a central bank find a remedy for these ailments? Or can it only

modify the repercussions? Has it any right to interfere in industrial policy so as to attempt to control it?

Secondly, a study of the constitution of twenty-six central banks, that have been set up since the war, leaves one with the impression that all central banks suffer from a complex against inflation, due to an uncontrolled currency. Australia has never suffered from this malady. So let it not be imagined that, in learning to control inflation in Europe by means of how to control currencies, the central bankers are making a serious contribution to the problem of how to control credit. *This* is Australia's problem, and, in a sense, for a new country it is a special problem, to the solution of which Australians can hope to make as great a contribution as can the peoples and the bankers of the older countries.

CHAPTER VII

CONCLUSION

In the foregoing pages an attempt has been made to give an account of the development of the banking system that has grown up in connection with the operations of the fifty-seven banks that have existed in Australia at one time or another.

We began with a review of the system as a whole; we took a much closer view of the system when we described in fuller detail the events in the three periods into which the Australian banking story so naturally falls. In this closer view we picked out for fuller analysis the factors connected with the crises and exchange problems; and this examination, in its turn, produced a discussion of the whole question of central banking, involving a consideration of the type of central bank that is best suited to the needs of Australia.

The Australian banking system is seen at its best when it initiated a system of currency, as was illustrated by the story of the early days of the Bank of New South Wales; or when it has crystallised latent energy into the form of cash for the purpose of financing imports and exports. We might have displayed its virtues by tracing the part that was played by the banking system in establishing the sugar industry in Queensland, in opening up districts like Pinarroo in South Australia, or in developing the gold-fields of New South Wales, Victoria and, later, of Western Australia. This was not done, because such activities are the normal task of every banking system in every country. In the instances just mentioned, and in many cases not mentioned, we have an example of credit taking the form of a facility, such as

gas, water or electricity, to be had for hire; and, in most cases, we have the banker as the enlightened, self-appointed public servant, distributing these facilities and putting the stamp of his approval on various forms of economic development by showing a willingness to finance them.

But Australian banking has not always been financially virtuous, nor have the actors in the system always been enlightened. We have seen the system at its worst in the various ways in which intense competition has led to the development of practices of doubtful usefulness: cutting rates here in order to win business, or raising interest there; crushing a rival or refusing to help a bank in need—though it must be admitted that the banks which were refused help were in a very doubtful financial condition. The silent pressure of the banks upon Governments has appeared in the Queensland crisis of 1866; monopolistic tendencies of the banks have also appeared, notably in 1924, and just prior to that date, when an unduly high price was charged for the facilities which the banks offered to the public, and this price could not have been exacted had it not been for the close organisation which the banks had developed at that time. The report of the sub-committee on Inter-Imperial Exchanges of the 1923 Imperial Economic Conference emphasised the fact that the exchange charges were too high. To resume. In times of crisis—for example, in 1893—certain of the banks, but not all of them, showed that they were prepared to finance the worst forms of speculation and then run to the stronger institutions for help, or else throw the burden of their financial misdemeanours upon depositors or shareholders or both; but there have also been conspicuous examples to the contrary.

Finally, since the war, and up to 1925, we were witnesses of the financial system, with gold no longer the basis of the currency, unable to cope with an exchange position, mainly because everyone was unaccustomed to the operation of the system without the support of gold. But

this was a weakness common to all the Dominion banks; it was not a special feature of the Australian system.

A particularly interesting feature of the Australian system has been the rise and fall in the number of banks to meet the needs of trade. The major crises in Australian financial history have been preceded by a mushroom growth of banks and other financial institutions, whose competition amongst themselves has led the weaker ones among them to over-reach the limits of safety. Then has followed the crisis in which the weaker banks have been weeded out, and their disappearance has eased the situation for the stronger banks, and has reduced the intensity of the competition. After the crisis of 1893 the banks either took the matter in hand themselves, or else the pressure of economic circumstances brought about a considerable reduction in the number of banks in operation. Moreover, the existing banks are a very close organisation, pursuing a common policy in regard to matters of common concern, such as the bank rate, the payment of interest on current accounts, and deflation as a method of reducing the flow of imports. From this it would appear that profitable banking in Australia is most efficiently conducted where there are comparatively few banks working within the controlling circle of a close monopoly. Where the banks have abused their position, or have failed to perform their function properly, an additional bank has grown up, or the Government has stepped in to make good any discrepancy, and this process has been hastened by public outcry. It is at times such as these that the need of a central bank has been felt.

This brings us to the question of the control of national financial policy. Since the control of national policy rests with those who control financial policy, the problem of deciding who is to control financial policy is a most important one. In Australia this has become a political question, though it is not yet generally realised that questions such as the tariff, the regulation of wages, State rights and the conflict between the primary producer and the industrialist have their roots in finance and financial policy. While it is true that some of the recent Commissions of Inquiry have brought this point out into the open, the failure of the Development and Migration Commission, before it was disbanded, to examine seriously the bearing of monetary policy upon unemployment is an illustration of the reluctance of Governments and Commissions to pursue a line of inquiry which will lead to much controversy. In 1912 the formation of the Commonwealth Bank was the attempt of one political party to set on foot a process for the nationalisation of finance. The failure of that bank to make any appreciable difference to banking policy, and its conversion in 1924 into an institution for registering the obligations of the trading banks to each other—acting at the same time as the controller of the note issue, divorced from politics—while it may have been the preliminary to the establishment of a central bank, may also be interpreted as giving a decent burial to the attempt to nationalise finance. While there is good reason for saying that credit can no more become the function of a Government department than can faith, hope and charity, because credit is essentially of the substance of things hoped for, and because it is a matter of human capacity or of human idiosyncrasy, there is no just defence for leaving the control of monetary policy to private meetings of associated banks or to central banks whose directors make a hobby of secrecy. But precisely who is to formulate monetary policy, and how that policy, once formulated, is to be administered, is still a matter upon which experts differ, though the world-wide experiment of "trying out" twenty-six central banks with control of the note issue seems to suggest that there is in certain quarters a substantial body of opinion in favour of credit control by central banks. But it has to be remembered that this view may be a reaction against the inflationary tendencies of war finance, and particularly against the general prostitution of the note issue in European countries by Governments

driven desperate by a war-created necessity for finding funds. It may be—it is not to be assumed that it is—that generalisations based upon such abnormal conditions, and given shape in the form of central banks with control of the note issue and divorced from politics, are faulty ones, and that the present trend is only a phase of financial development. For it took England about thirty years to pass the Bank Act of 1844, following the defeat of Napoleon. It will probably take us as long to make our financial settlement after the last war.

A notable function of the Australian banking system is that it has been the medium for translating to Australia British economic and financial imperialism, with its headquarters in the City of London. Though this has not worked to Australia's detriment, because that imperialism has developed facilities and Government, while at the same time it has enabled Australia to create a financial dynamo of her own, it has meant the development of a financial system and policy that have been thoroughly unco-ordinated. London, for example, has wanted primary products from Australia, and, through the medium of her contributions to the capital and deposits of the Australian banks, was prepared to finance primary production. Australian manufacturers, on the contrary, have wanted money for the development of secondary industries, and have probably used the import of British goods as a convenient red rag with which to tease the bull of Australian economic nationalism. And the manufacturers were prepared to finance a policy different from that which was desired in London. Though Australian Governments have wanted to develop public works for a country which was seeking a balanced economy, the Anglo-Australian banks have been inclined to regard such a policy as premature, and have been prepared to finance public works for a primary producing economy. London has refused to finance the land policy of one of the State political parties, and that political party went to New York for its money. Moreover, the balance of world economic power is not now where it was in 1850. If we take Manilla in the Philippines as

a centre, and describe a circle with a radius of 2000 miles, we shall enclose within it almost half of the population of the globe. Does Australia's future lie with the peoples inside that circle, or with those whose habitation lies outside it? Again, if we take the Behring Sea as the apex of a triangle whose other two angles rest on Cape Town and Cape Horn, we shall find that Australia lies in the middle of the base of that triangle, closer than any large wheat- and wool-producing areas to Africa, India and China, whose populations have not yet learned to eat meat and wheat and to wear wool. Might not Australia's economic future lie as much here as anywhere else?

Australia needs development, both internal—in the way of plant and machinery—and external—in the way of markets. For this development she needs credit, and credit is a matter of financial policy. Who is to choose that policy? This raises not only the problem of central banking, but it also raises the further question of the future of the British Empire. The economic future of Australia cannot be considered apart from the future of the British Empire. This at once raises into a position of supreme importance schemes such as that of Mr. Darling and his Imperial Bank. As an indication of the sort of thing that is involved, Mr. Goodenough, Chairman of Barclay's Bank, Ltd., said on January 21st, 1930: "There is a growing desire at the present time in this country, and amongst the Dominions and Colonies overseas, to draw more closely together, through the recognition that each can give material help, either industrially, financially or in the supply of foodstuffs and raw materials, to each other by such a movement."[1] The question arises as to what is the best way of bringing about such a state of economic unity. Before we can have unity in economic policy we must have unity in financial policy. A recent writer[2] has suggested that this financial unity is being brought about by the expansion and developments of what he calls

[1] *Times*, January 22nd, 1930. [2] Baster, *Imperial Banks*.

Imperial banks, such as Barclay's and the Bank of Australasia, both by the expansion of branches and by the interlocking of directorates. This interesting question received attention at the hands of *The Times* in a leader published on March 28th, 1921. The article was of such importance that the *Australasian Insurance and Banking Record* reprinted it in full on June 21st of the same year. The title of the article is significant: "Imperial Banking Co-operation." The article stresses two points: first, that Australia was suffering from certain financial difficulties; secondly, that there was a need for co-operation between the Dominions and the Bank of England. The leader claimed that Australian exchange difficulties were due to lack of a central bank, and advised Australia to follow the lead of South Africa and India. It went on to add that the war stressed the need for co-operation, and it was the central banks in the U.S.A. and England that made co-operation between these countries so easy. If the Dominions had central banks, financial co-operation might be possible. Another type of co-operation lay in the men appointed to the Court of the Bank of England. The appointment of Mr. Peacock of Canada to that Court was hailed by *The Times* as a new step in Imperial banking.

Now this is a most important leader. Not only does it stress the need for imperial financial co-operation, but it also suggests a way—the appointment of men to the Court of the Bank of England who have had Dominion or Colonial experience. This suggestion has some significance when we realise that, since then, Sir Charles Addis and Sir Basil Blackett have been appointed to that Court; for both of them have had experience outside the British Isles.

We have, therefore, in order to obtain financial unity, three possible lines of development. There is, first of all, an Imperial Bank of the Darling type, with exchange functions such as either he or Dr. Shaw suggests. Secondly, there is the possibility of financial unity through an extension of the type of bank like Barclay's or the

Union of Australia, Ltd., or the Bank of Australasia, with interlocking directorates. Thirdly, there is the possibility of financial unity through the type of men appointed to the Court of the Bank of England—the appointment either of men from the Dominions or of men who know the Dominions. Or possibly all three methods might be employed. But it is quite certain that if nothing is done the Dominions will drift off along their own lines, or they may possibly come under the financial influence of the United States. This is quite a possibility for Canada and for Australia.

I think that, since Australia is such an undeveloped country, and since she owes external commitments to the amount of well over £800,000,000, for some considerable time at least she will have to rely on external sources for her supplies of capital for development. This fact rules out for many years any idea of an independent financial policy, because a borrowing nation cannot avoid linking up its financial policy and banking system with the financial centre from which it borrows. This leaves only London and New York as possible sources.

There will be two types of demand for money in the future: first, the renewal of existing loans until they are liquidated by their repayment out of the sinking funds which have been established; secondly, new money for the purpose of development. It must be borne in mind that all of the money will not come from overseas, because a considerable portion of the existing debts is owed inside Australia. Hence it may be assumed that some of the new money will be raised locally. The bulk will have to come from outside Australia. Where will it come from, and what form of banking organisation will be required to administer both the demand for it and its flow when once it has been raised on behalf of Australia? This again raises the question of Imperial financial policy and its bearing upon the problem of Dominion status. Since economic policy determines political policy, and since financial policy determines economic policy, it

would appear difficult to conceive of the continued existence of the British Commonwealth of Nations as an economic and political unit if its component parts do not pursue a common financial policy. But the different stages of development of the various parts of the British Commonwealth make the formulation of a common financial policy a matter of extraordinary difficulty. To different stages of development have to be added the fact that in Canada, for example, already British capital no longer plays a predominant part, its place being shared with the United States, while both India and Australia have begun the process of drawing upon New York for some of their loan requirements. There was a time when there was a possibility of the French coming in as lenders to Australia. So early as 1892, Victoria, having some difficulty in placing her loans in London, was offered a loan of from £2,000,000 to £3,000,000 by a French syndicate. Sir Graham Berry, for Victoria, declined the proposal, on the ground that it might, if accepted, annoy British capitalists. The dealings of Australian Governments and bankers have, since the war, been much more intimate with New York than this, as we saw in Chapter V, and though Australia's dealings with New York are now through the London office of Pierpoint Morgan, this does not mean that Australia will cease to borrow from the United States. This process only needs to be developed for a few decades, when considerations of a common policy in finance for the British Commonwealth will clash with considerations of the wishes of other financial centres from which the Dominions have been drawing their capital resources, and the Imperial Conferences may become the battlefield of warring financial and economic groups owing allegiance to no common heritage. The question is whether that process should be allowed to develop unhindered by any attempt to arrest or guide it, or whether the component parts of the British Commonwealth should take up this question of Empire finance as a major problem before any attempt is made to settle upon the formal

organisation of the individual central banks which are to co-ordinate the internal financial activities of each separate Dominion. At present the Bank of England appears to be so occupied with the problem of co-operating with the Federal Reserve Board in the financial reconstruction of Europe that it has no time for the more localised problem of Imperial finance. In the meantime, however, developments are taking place in the banking systems of the Dominions which may make the ultimate formulation of an Empire financial policy an impossibility. Perhaps the Bank of England is relying upon the directive force, which will be developed with the organisation of the Bank of International Settlements and a chain of central banks, linked by the gold standard, to put all economic groups, including the British Commonwealth, in their proper place in a world economy, so that, in the meantime, it sees no need for troubling about anything but the essential factors in the situation.[1]

But the march of economic events has already caused Australia to make one important decision. The financial collapse in America and the fall of prices in wool have upset the general situation, and the exchanges are once more a pressing problem. The reactions of this on financial policy have created a volume of unemployment that has in twelve months cost two Australian Governments their political heads. The Federal Government is plunging into the financial problem associated with central banking, and has set up a new central bank, leaving the Commonwealth Bank to continue its existence as an ordinary trading bank in competition with the existing ones.[2] This Government and the party behind it have an ambitious programme, and directly this programme is put into effect it will raise the whole question of loan

[1] This was written before the visit of Sir Otto Niemeyer to Australia and the reported visit of the Governor of the Bank of England to South Africa; both during 1930.

[2] Both of these matters are now, since the Australian Senate's recent veto, in a state of suspended animation, until 1931 or later.

policy, Empire financial policy and Australia's relations with other Pacific Powers. These questions cannot be settled without deciding what is to be the future position of the Bank of England in Imperial finance, a problem which, interesting though it is, lies outside the scope of this book. Perhaps the combined efforts of the MacMillan Commission and of the 1930 Imperial Conference will make some contribution to its solution; and the authorities of the bank itself may also be trusted to have some ideas on the subject.

APPENDIX I

A Complete List of Australian Banks

No.	Date Established.	Title of Bank.	Location of Head Office.	Remarks.
1	1817	Bank of New South Wales.	Sydney.	Still in existence.
2	1823	Bank of Van Diemen's Land.	Hobart.	Re-formed 1880 as a limited company. Failed Aug. 8th, 1891.
3	1823	Waterloo Company.	Sydney.	First mentioned C.O. 206/64, but not after 1832.
4	1826	Bank of Australia.	Sydney.	Failed 1848.
5	1828	Derwent Bank.	Hobart.	First mentioned C.O. 208/51.
6	1828	Cornwall Bank.	Hobart.	Taken over by the Bank of Australasia 1835–36.
7	1829	Bank of Western Australia.	Perth.	In 1841 business taken over by the Western Australian Bank.
8	1830	Commercial Bank of Tasmania.	Hobart.	First mentioned C.O. 208/53. Taken over by the English, Scottish and Australian Bank, Ltd., in 1921.
9	1834	Commercial Banking Co. of Sydney, Ltd.	Sydney.	Still in existence.
10	1835	Tamar Bank.	Launceston.	First mentioned C.O. 284/58. Dissolved in 1838.
11	1835	Bank of Australasia.	London.	Still in existence.
12	1835	Bank of South Australia.	London.	Bought by the Union Bank in 1892.
13	1836	Bank of Bathurst.	Bathurst.	Taken over by the Union Bank in 1841.
14	1837	Union Bank of Australia, Ltd.	London.	Still in existence.
15	1839	Bank of Sydney.	Sydney.	Failed 1843.
16	1840	Bank of Port Phillip.	Melbourne.	First mentioned C.O. 208/81. Failed 1843.
17	1840	Royal Bank of Australia.	London.	Failed March 1850.
18	1841	Western Australian Bank.	Perth.	Absorbed by the Bank of New South Wales in 1927.
19	1851	Oriental Banking Corporation.	London.	Suspended payment 1884.
20	1852	Bank of Victoria, Ltd.	Melbourne.	Taken over by the Commercial Banking Co. of Sydney, Ltd., in 1927.
21	1852	English, Scottish and Australian Bank, Ltd.	London.	Still in existence.

A COMPLETE LIST OF AUSTRALIAN BANKS—(*continued*)

No.	Date Established.	Title of Bank.	Location of Head Office.	Remarks.
22	1852	London Chartered Bank of Australia, Ltd.	London.	Taken over by the English, Scottish and Australian Bank, Ltd., in 1921.
23	1853	Bank of Tasmania.	Hobart.	Re-formed July 1885 as National Bank of Tasmania. Taken over by the Commercial Bank of Australia, Ltd., 1917.
24	1853	Australian Joint Stock Bank, Ltd.	Sydney.	Taken over by the Australian Bank of Commerce in 1910.
25	1856	Colonial Bank of Australasia, Ltd.	Melbourne.	Amalgamated with the National Bank of Australasia, Ltd., in 1918.
26	1857–58	National Bank of Australasia, Ltd.	Melbourne.	Still in existence.
27	1863	City Bank of Sydney.	Sydney.	Amalgamated with the Australian Bank of Commerce in 1918.
28	1863	Bank of Queensland	Brisbane.	Failed 1866.
29	1864	Land Mortgage Bank of Victoria, Ltd.	Melbourne.	Still in existence.
30	1865	Bank of Adelaide.	Adelaide.	Still in existence.
31	1865	Ballarat Banking Co., Ltd.	Ballarat.	Still in existence.
32	1866	Melbourne Banking Co.	Melbourne.	Amalgamated with the City of Melbourne Bank, Ltd., in 1880.
33	1866	Commercial Bank of Australia, Ltd.	Melbourne.	Still in existence.
34	1869	Mercantile Bank of Sydney.	Sydney.	Taken over by the Commercial Bank of Australia, Ltd., in 1891.
35	1872	Queensland National Bank, Ltd.	Brisbane.	Still in existence.
36	1872	Provincial and Suburban Bank, Ltd.	Melbourne.	Failed May 1879.
37	1873	City of Melbourne Bank, Ltd.	Melbourne.	Failed 1895.
38	1873	Australian and European Bank, Ltd.	Melbourne.	Stopped payment on June 11th, 1879. Amalgamated with the Commercial Bank of Australia, Ltd., in 1883.
39	1877	Mercantile Bank of Australia, Ltd.	Melbourne.	Failed in 1892.
40	1877	Australian and Economic Bank.	Melbourne	Merged into the Mercantile Bank of Australia, Ltd., June 11th, 1885.
41	1878	Commercial Bank of South Australia, Ltd.	Adelaide.	Failed Feb. 24th, 1886.

A COMPLETE LIST OF AUSTRALIAN BANKS—(*continued*)

No.	Date Established.	Title of Bank.	Location of Head Office.	Remarks.
42	1879	Standard Bank of Australia, Ltd.	Melbourne.	Suspended payment Dec. 4th, 1891. Reconstituted and failed again 1893. Reconstructed and failed again 1898.
43	1880	Town and Country Bank, Ltd.	Adelaide.	Amalgamated with the Commercial Bank of Australia, Ltd., Nov. 24th, 1887.
44	1881	Joint Stock Bank of Victoria, Ltd.	Melbourne.	Amalgamated with the City of Melbourne Bank, Sept. 11th, 1882.
45	1881	Sydney and Country Bank, Ltd.	Sydney.	Taken over by the Federal Bank of Australia, Ltd., April 3rd, 1883.
46	1881	Federal Bank of Australia, Ltd.	Melbourne.	Failed Jan. 1893.
47	1884	Oriental Banking Corporation.	London.	Failed 1892.
48	1885	Royal Bank of Queensland, Ltd.	Brisbane.	Amalgamated with the Bank of North Queensland, Ltd., to form the Bank of Queensland, Ltd.
49	1885	National Bank of Tasmania, Ltd.	Launceston.	Absorbed by the Commercial Bank of Australia, Ltd., in 1917.
50	1888	Bank of North Queensland, Ltd.	Rockhampton; later Brisbane.	Amalgamated with the Royal Bank of Queensland, Ltd., to form the Bank of Queensland, Ltd.
51	1888	Royal Bank of Australia, Ltd.	Melbourne.	Taken over by the English, Scottish and Australian Bank, Ltd., in 1927.
52	1910	Australian Bank of Commerce.	Sydney.	Still in existence.
53	1912	Commonwealth Bank of Australia.	Sydney.	Still in existence.
54	1917	Bank of Queensland, Ltd.	Brisbane.	Taken over by the National Bank of Australasia, Ltd., in 1922.
55	1923	Primary Producers' Bank of Australia, Ltd.	Sydney.	Still in existence.
56	1926	Federal Deposit Bank, Ltd.	Brisbane.	Still in existence.
57	1926	Queensland Deposit Bank, Ltd.	Brisbane.	Still in existence.

There has also existed the Tamar Bank of Van Diemen's Land. Of this no adequate data can be found, and it is, therefore, omitted from the above list. It was taken over in 1892 by the Union Bank of Australia, Ltd.

APPENDIX II

AUSTRALIAN BANKS AT PRESENT IN EXISTENCE.

(Figures are for September, 1929.)

No.	Title of Bank.	Paid-up Capital.	Reserves.
1.	Australian Bank of Commerce	£2,208,000	£1,086,880
2.	Ballarat Banking Co., Ltd.	153,000	78,000
3.	Bank of Adelaide	1,250,000	985,000
4.	Bank of Australasia	4,500,000	4,450,000
5.	Bank of New South Wales	7,500,000	5,900,000
6.	Commercial Bank of Australia, Ltd.	3,617,350	1,900,000
7.	Commercial Banking Co. of Sydney, Ltd.	4,739,013	4,200,000
8.	Commonwealth Bank of Australia	4,000,000	618,585
9.	English, Scottish and Australian Bank, Ltd.	3,000,000	3,000,000
10.	Federal Deposit Bank, Ltd.	225,087	60,790
11.	Land Mortgage Bank of Victoria, Ltd.	76,529	36,122
12.	National Bank of Australasia, Ltd.	5,000,000	3,100,000
13.	Primary Producers' Bank of Australia, Ltd.	426,514	10,000
14.	Queensland National Bank, Ltd.	1,750,000	815,000
15.	Queensland Deposit Bank, Ltd.	55,087	56,135
16.	Union Bank of Australia, Ltd.	4,000,000	4,850,000

APPENDIX III

LIST OF AUSTRALIAN BANKS THAT HAVE FAILED AT ONE TIME OR ANOTHER

No.	Title of Bank.	Date of Failure.
1.	Bank of Australia	1848
2.	Bank of Port Phillip	1843
3.	Bank of Queensland, Ltd.	1866
4.	Bank of Sydney	1843
5.	Bank of Van Diemen's Land	1891
6.	City of Melbourne Bank, Ltd.	1895
7.	Commercial Bank of South Australia, Ltd.	1886
8.	Federal Bank of Australia, Ltd.	1891
9.	Mercantile Bank of Australia, Ltd.	1892
10.	Oriental Banking Corporation	1884
11.	Oriental Banking Corporation (The "New)"	1892
12.	Provincial and Suburban Bank, Ltd.	1879
13.	Royal Bank of Australia	1850
14.	Standard Bank of Australia, Ltd.	1891, 1893, 1898
15.	Tamar Bank	1838
16.	Waterloo Company	1832 ?

APPENDIX IV

BANKS THAT HAVE BEEN BOUGHT OR AMALGAMATED

No.	Title of Bank.	Name of Bank taking over.	Date when taken over.
1	Cornwall Bank.	Bank of Australasia.	1835
2	Bank of South Australia.	Union Bank of Australia, Ltd.	1892
3	Bank of Bathurst.	Union Bank of Australia, Ltd.	1841
4	Bank of Western Australia.	Western Australian Bank	1841
5	Western Australian Bank.	Bank of New South Wales.	1927
6	Bank of Victoria, Ltd.	Commercial Banking Co. of Sydney, Ltd.	1927
7	London Chartered Bank of Australia, Ltd.	English, Scottish and Australian Bank, Ltd.	1921
8	Australian Joint Stock Bank, Ltd.	Australian Bank of Commerce.	1910
9	Colonial Bank of Australasia, Ltd.	National Bank of Australasia, Ltd.	1918
10	City Bank of Sydney.	Australian Bank of Commerce.	1918
11	Melbourne Banking Co.	City of Melbourne Bank, Ltd.	1880
12	Mercantile Bank of Sydney.	Commercial Bank of Australia, Ltd.	1891
13	Australian and European Bank, Ltd.	Commercial Bank of Australia, Ltd.	1883
14	Australian and Economic Bank, Ltd.	Mercantile Bank of Australia, Ltd.	1885
15	Town and Country Bank, Ltd.	Commercial Bank of Australia, Ltd.	1886
16	Joint Stock Bank of Victoria, Ltd.	City of Melbourne Bank, Ltd.	1882
17	Sydney and Country Bank, Ltd.	Federal Bank of Australia, Ltd.	1883
18	Royal Bank of Queensland.	Bank of Queensland, Ltd.	1917
19	National Bank of Tasmania, Ltd.	Commercial Bank of Australia, Ltd.	1917
20	Bank of North Queensland, Ltd.	Bank of Queensland, Ltd.	1917
21	Australian Joint Stock Bank, Ltd.	Australian Bank of Commerce.	1910
22	Bank of Queensland, Ltd.	National Bank of Australasia, Ltd.	1922

BANKS THAT HAVE BEEN BOUGHT OR AMALGAMATED—(*continued*).

No.	Title of Bank.	Name of Bank taking over.	Date when taken over.
23	Tamar Bank of Van Diemen's Land.	Union Bank of Australia, Ltd.	1892
24	Royal Bank of Australia, Ltd.	English, Scottish and Australian Bank, Ltd.	1927
25	Commercial Bank of Tasmania, Ltd.	English, Scottish and Australian Bank, Ltd.	1921
26	Bank of Tasmania, Ltd.	National Bank of Tasmania, Ltd.	1885

APPENDIX V

BANKS THAT HAVE TAKEN OVER OTHER BANKS.

No.	Name of Bank.	Banks Amalgamated.	Date when Amalgamated.
1	Bank of Australasia.	Cornwall Bank.	1835
2	Union Bank of Australia, Ltd.	Bank of South Australia.	1892
		Tamar Bank of Van Diemen's Land.	1892
		Bank of Bathurst.	1841
3	Western Australian Bank.	Bank of Western Australia.	1841
4	Bank of New South Wales.	Western Australian Bank.	1927
5	English, Scottish and Australian Bank, Ltd.	London Chartered Bank of Australia, Ltd.	1921
		Commercial Bank of Tasmania, Ltd.	1921
		Royal Bank of Australia, Ltd.	1927
6	Australian Bank of Commerce.	Australian Joint Stock Bank, Ltd.	1910
		City Bank of Sydney.	1918
7	National Bank of Australasia, Ltd.	Colonial Bank of Australasia, Ltd.	1918
		Bank of Queensland, Ltd.	1922
8	City of Melbourne Bank, Ltd.	Joint Stock Bank of Victoria, Ltd.	1882
		Melbourne Banking Co.	1880
9	Commercial Bank of Australia, Ltd.	Mercantile Bank of Sydney.	1891
		Australian and European Bank, Ltd.	1883
		Town and Country Bank, Ltd.	1886
		National Bank of Tasmania, Ltd.	1917
10	Mercantile Bank of Australia, Ltd.	Australian and Economic Bank, Ltd.	1885
11	Federal Bank of Australia, Ltd.	Sydney and Country Bank, Ltd.	1883
12	Bank of Queensland, Ltd.	Royal Bank of Queensland, Ltd.	1917
		Bank of North Queensland, Ltd.	1917
13	Commercial Banking Co. of Sydney, Ltd.	Bank of Victoria, Ltd.	1927
14	National Bank of Tasmania, Ltd.	Bank of Tasmania, Ltd.	1885

APPENDIX VI

BANKS WHICH NEVER GOT BEYOND THE HANDS OF THEIR PROMOTERS.[1]

1. In 1840. Tradesmen's Bank.
2. In 1841. Scotch Australian Bank.
3. In 1873. Bank of the Southern Hemisphere.

APPENDIX VII

BANKS WHOSE NAMES APPEAR IN THE RECORDS, BUT WITHOUT SUFFICIENT DETAIL TO FIX THEIR IDENTITY.

1. British Colonial Bank and Loan Co.
2. Tasman Bank. Reported to have been taken over by the Union Bank of Australia in 1837.[2]

[1] *Vide* "Victoria and its Metropolis: Past and Present," by H. Gyles Turner.

[2] Vide *A.I. and B.R.*, January 1890.

APPENDIX VIII

LIST OF THE TOTALS OF CAPITAL, RESERVE FUNDS AND BRANCHES

(See pages 77, 78, for the method of computing these figures; also pages 168, 169.)

Date.	Capital.	Reserve.	No. of Branches.
Carried forward	£2,850,000	—	8
1850	2,850,000	—	9
1852	3,350,000	£6,217	11
1853	4,230,000	6,217	25
1856	4,230,000	206,217	49
1859	4,410,000	406,217	63
1860	4,910,000	409,717	71
1861	5,058,000	540,717	96
1864	5,558,000	540,717	111
1865	8,836,120	903,649	183
1866	8,969,900	1,055,341	219
1867	No figures	available	
1868	10,152,955	1,397,707	337
1869	9,912,156	1,401,504	344
1870	10,032,156	2,304,504	351
1871	10,032,156	2,363,129	356
1872	10,010,906	2,280,770	351
1873	10,010,906	2,361,859	359
1874	10,130,906	2,464,059	422
1875–76	No figures	available	
1877	11,057,250	3,063,187	587
1878	No figures	available	
1879	12,377,250	4,052,397	749
1880	12,900,250	4,382,397	798
1881	13,569,820	5,022,897	839
1882	13,785,820	5,192,546	888
1883	14,036,820	5,286,291	873
1884	14,298,930	5,706,791	903
1885	14,898,930	7,132,074	958
1886	15,466,230	7,964,964	1019
1887	15,971,230	8,727,964	1096
1888	16,056,730	9,132,262	1130
1889	16,340,401	9,500,972	1212
1890	No figures	available	
1891	18,197,497	10,890,103	1408
1892	18,076,477	11,235,404	1482
1893	16,911,699	10,803,306	1470
1894	17,706,639	8,780,176	1407
1895	22,220,628	7,194,626	1271

LIST OF TOTALS OF CAPITAL, RESERVE FUNDS AND BRANCHES—(*continued*)

Date.	Capital.	Reserve.	No. of Branches.
1896	£22,977,392	£7,255,792	1211
1897	23,778,771	7,168,071	1189
1898	22,227,808	6,872,429	1187
1899	21,956,381	6,965,495	1203
1900	21,836,684	7,077,495	1209
1901	21,509,178	6,251,686	1228
1902	21,361,344	6,396,057	1262
1903	20,952,339	6,606,780	1285
1904	19,991,548	7,041,204	1337
1905	18,635,343	7,927,175	1380
1906	18,660,738	7,719,155	1425
1907	18,670,999	8,253,655	1571
1908	18,953,351	9,426,868	1628
1909	18,421,054	11,009,875	1673
1910	18,665,070	10,198,665	1762
1911	19,563,779	10,693,785	1945
1912	20,365,136	11,352,996	2039
1913	20,701,577	12,882,261	2079
1914	21,111,322	13,711,961	2111
1915	22,679,537	15,416,491	2181
1916	22,768,450	16,074,422	2194
1917	22,801,917	16,566,095	2211
1918	23,158,131	18,135,941	2231
1919	22,198,495	18,587,167	2248
1920	25,394,702	21,842,741	2261
1921	27,532,644	22,716,014	2364
1922	29,216,818	24,751,682	2392
1923	30,620,297	25,871,683	2480
1924	32,494,385	27,743,585	2665
1925	39,864,976	28,899,964	2806
1926	40,781,820	30,287,317	2891
1927	39,754,272	30,084,470	3006
1928	43,647,130	32,416,382	3138
1929	45,249,207	35,411,969	3246

A BIBLIOGRAPHY OF AUSTRALIAN BANKING AND FINANCE

I. ORIGINAL SOURCES

(*a*) HAND-WRITTEN: IN HIS MAJESTY'S PUBLIC RECORD OFFICE

Blue Books of Statistics, Colonial Office, 206, Nos. 65–92; 284, Nos. 48–73; 12, Nos. 17–23; 17, Nos. 12–23.
Despatches of the Australian Governors.

(*b*) PRINTED: IN HIS MAJESTY'S PUBLIC RECORD OFFICE

Sessionals.
Gazettes. C.O. 206.
Sydney Gazette, 1803–40.
The Australian, 1824–47.
The Monitor, 1826–28.
The Sydney Monitor, 1829–41.
The Sydney Herald, 1831–42.
The Sydney Morning Herald, 1842–57.
The Australian Chronicle, 1842–43.
The Morning Chronicle, 1844–46.

These contain references to prices, imports, exports, advertisements, budgets, bank meetings and leading articles.

(*c*) PRINTED

The Australian Insurance and Banking Record, 1877–1930.
Reports and Balance Sheets of the Australian banks. Those that have been preserved number well over a thousand.

II. BOOKS AND PAMPHLETS

Australian Joint Stock Year Book," ed. R. L. Nash. 1902.
Baker, " Pocket Companion." 1843.
Baster, " Imperial Banks." 1929.
Baxter, " Banking in Australia from a London Official's Point of View."
Butchart, " Money, Credit and Exchange." 1923.
Chalmers, " Colonial Currency."
Coghlan, " Labour and Industry in Australia." 4 Vols. 1918.
Copland, " The Banking System of Australia."

Darling, " Currency Co-operation in the British Empire."
Darling, " Empire Consols." 1928.
Darling, " The Economic Unity of the Empire." 1926.
Faulkner and others, " Commonwealth Bank of Australia." 1923.
Ford, *Australian Almanac.* 1850 *et seq.*
French, " Banking as a Factor in the Development of Trade and Commerce." 1910.
Gibbs, " Australian Crisis of 1893."
Gill, " Brief Sketch of the Coinage and Paper Currency of South Australia." 1893.
Glynn, " The Case against a State Bank." 1899.
Groseclose, " Currency Systems of the Orient."
Hamilton and Eagleston, " Law and Practice of Banking in Australia and New Zealand." 1900.
Hanbury, " Public Debt and the Policy of Entrusting the Management to a Local Bank." 1871.
Hanbury, " South Australian Finance." 1879.
Hyman, " Account of the Coins, Coinages and Currency of Australasia." 1893.
Jevons, " Letters and Journal."
Kingsbury, " Financial Position of the Colonies in Relation to Banking." 1894.
Lang, " Convicts' Bank."
le Cheminet, " Colonial and Foreign Banking Systems." 1924.
Marks, " History of the Paper Currency in Australia." 1919.
Mayton, " Australian Public Finance."
Nash, " Banking Institutions of Australia." 1889.
Neill, " Commonwealth Note Issue." 1911.
Preshaw, " Banking under Difficulties." 1888.
" Primary Producers' Bank of Australasia, Ltd." 1923.
Report of the 1923 Imperial Conference, Cmd. 2009, G.B. 1924.
Scott, " Circulating Sovereign." 1917.
Shaw, " Currency Credit and Exchange."
Stirling, " Australian and Californian Gold Discoveries and their Probable Effects."
Strack, " Australian Banking Problems Answered." 1916.
Tegg, " Almanac and Remembrancer."
The Australian Almanac. 1893.
" The Bank of New South Wales." 1907.
Torrens, " Observations upon . . . Act No. 1, 1852, Making Bank Notes under Certain Circumstances Legal Tender." 1852.
Turner, " Proposed Government Note Issue." 1904.
Turner, " Victoria and its Metropolis."
Walker, " Some Notes on Australasian Banks and on Banking as a Factor in the Progress of Australia." 1888.
Year Book of Australia, ed. Edward Greville. 1885.

III. ANNUALS AND PERIODICALS

Bankers' Magazine (London).
Banking Almanac (London), 1844 *et seq.*
Bulletin of the National City Bank of New York.
Federal Reserve Bulletin.
Journal of the Institute of Bankers (New South Wales).
South Australian Bank Officials' Journal.
The Monthly Summary of the National Bank of Australasia, Ltd.
The Monthly Review of the Midland Bank, Ltd. (London).
The Statist (London), especially the International Banking Section.
The Economist (London).
The Banker (London).
The Manchester Guardian Commercial.
The Economic Record (Melbourne).
The Monthly Journal of the Melbourne Stock Exchange.

INDEX

ABSORPTIONS of banks, 2, 3
Act giving lien on wool, 12
Advances, 99, 101, 103, 118
Amalgamations, 141, 153, 160 *et seq.*
American finance in Australia, influence of, 164–7
American loans, 166
Area under cultivation, 165
Argentine crisis, 49, 108–9
Assay and Bullion Act, 90
Assets Trust, 145
Associated Banks, 10, 69, 71, 73, 110, 113, 151, 159–60, 188, 189, 220
Australasian Insurance and Banking Record, 95, 100, 102, 104, 107–8, 125, 126, 133, 141, 144, 148, 155, 164–5, 171, 173, 176, 178, 180, 185, 187
Australasian Joint Stock Year Book, 180
Australian banking system :—
  defects, 227
  merits, 226–7
  needs of trade, 228
Australian Economic Association, 79
Australian securities held in London 178

BALLARAT BANKING CO., 52, 53, 54
Bank :—
  of Adelaide, 52, 53, 82, 149
  Agra and Masterman, 54, 93
  of Australasia, 20, 30, 32, 33, 35, 41, 42, 45, 59, 79, 80, 114, 119, 142, 150, 171,
  of Australia, 21, 23
  Australian, of Commerce, 7, 51, 53, 144, 149, 153
  Australian and Economic, 56,
  Australian and European, 52, 55,
  Australian Joint Stock, 50, 51, 136, 144, 145, 149
  of Bathurst, 20, 53
  City of Melbourne, 52, 53, 79, 144, 146
  City of Sydney, 52, 53, 82, 149, 153, 170
Bank—*continued*
  Colonial, of Australia, 50, 51, 136, 145, 149, 153
  Commercial, of Australia, 51, 52, 54, 55, 57, 58, 69, 75, 110, 113, 133, 145, 153
  Commercial, of South Australia, 56, 97
  Commercial, of Tasmania, 20, 160
  Commonwealth, of Australia, 149, 150, 166, 189–91, 192–7, 229
  the Cornwall, 20
  the Derwent, 20
  the Economic, 54
  of England, 58, 67, 68, 69, 70, 142, 149, 212, 235
  English, Scottish and Australian, 20, 82, 135, 160, 161
  Federal, of Australia, 56, 57, 110, 112
  Federal Deposit, 162
  of International Settlements, 215, 235
  Joint Stock, of Victoria, 56, 57
  Land Mortgage, of Victoria, 52, 53
  London Chartered, of Australia, 14, 50, 75, 160
  London and Westminster, 172
  Mercantile, of Australia, 54, 56, 109, 110
  Mercantile, of Sydney, 52, 54
  National, of Australasia, 8, 45, 50, 51, 69, 75, 113, 136, 143, 153, 161, 163
  National, of New Zealand, 2
  National, of Tasmania, 56, 58, 79, 153
  of New South Wales, 18, 21, 33, 35, 41, 42, 45, 46, 59, 60, 68, 69, 80, 114, 119, 142, 161
  of New Zealand, 2
  of North Queensland, 56, 58, 135, 153
  of Port Phillip, 20, 22, 23
  Primary Producers, of Australia, 7, 162, 163
  Provincial and Suburban, 52, 55, 66

Bank—*continued*
of Queensland (founded 1863), 52, 53; (founded 1917), 7, 59, 153, 161
Queensland Deposit, 162
Queensland National, 52, 54, 69, 114, 144, 146–8, 151
Royal, of Australia (founded 1850), 42; (founded 1888), 56, 59, 161
Royal, of Queensland, 54, 56, 58, 59, 136, 143, 161
of South Australia, 20, 30, 42, 44
Standard, of Australia, 56, 57
of Sydney, 23, 41
Sydney and Country, 56, 57
the Tamar, 20
of Tasmania, 50, 51
Town and Country, 56, 57
Union, of Australia, 20, 30, 40,44, 59, 74, 79, 81, 82, 92, 114, 119, 132, 142, 146, 170
of Van Diemen's Land, 20, 21, 30, 58
of Victoria, 50, 60, 139, 144, 162
Waterloo Company, 20, 25
of Western Australia, 20, 32, 45, 79, 161
Yokohama Specie, 2
Bank draft rates, 33–9
Bank failures, 20, 23, 46, 87, 109, 110
Bank Issue Act (New South Wales), 138
Bank Notes Act (New South Wales), 139
Banks, numbers of, 2, 3, 4, 10, 47, 49, 83, 153, 160, 162, 182
Banks, statistics, 48, 98, 163, 173–4
Bankers' conference:—
(1895), 1, 186
(1901), 187
Bankers' Institute, 95, 171, 181
Banking Almanac, 77
Bankruptcies, number of, 87
Bankruptcy Act (1842), 86
Baring crisis, 49, 109, 127
Baring guarantee, 109
Baxter, 50
Berry, Sir Graham, 234
Blair & Co., New York, 165
Boer War, influence of, 142
Borrowing, amount of, 105, 130
Braddon, Sir H., 164
Branches:—
development of, 44, 104
distribution of, 80, 81
number, 45, 80, 120, 245–6
British Empire, future of, 231
Broken Hill, 129
Broken Hill Proprietary's overdraft, 190
Bulletin, the Sydney, 17, 151–2
Burdett's "Official Intelligence of the Stock Exchange," 176–7
Butchart, J. R., 157

CAPITAL:—
amount of, 43–4, 77–8, 167–9
import of, 100, 101, 103, 109, 167–9, 170, 178
paid-up, 100, 101, 167–9
raising of, 43, 77–8
Central bank theory, 197–201, 211 *et seq.*
Central banking, 182–225
Central banking practice:—
Bank of England, 201–2, 210
differences between Bank of England and U.S.A., 204, 207, 208
Federal Reserve Board, 202–3
Federal Reserve System applied to Australia, 220–44
South Africa, 208
Central Reserve Bank Bill:—
composition of Board, 215
powers, 215–16
negative powers, 216
profits, 217
discussion of, 217–20
Chappell, Sir E., 209
Characteristic features of Australian banks, 11 *et seq.*, 18
Charlton, M., Leader of Labour Party,
on appointment of Commonwealth Bank directorate, 192–3.
Classification of banks, 4
Clearing House, 75–6
"Clusters," 6, 9
Coghlan, Sir T. A., 14, 85, 86, 87, 111, 114, 115, 119, 124, 133, 145, 178
Coinage, 24, 31, 59
Colonial Bank *v.* Droop, 14
Colonial Banking Association, 74, 146
Colonial Government Stocks, 138
Colonial indebtedness, 171–81
Commercial Banking Co. of Sydney, 41, 42, 45, 50, 80, 119, 134, 161, 170
Commissory, issue of bills by, 33
Commonwealth Bank Acts, 190–1, 192–3
Commonwealth Bank, failure as a central institution, 198
Commonwealth Year Book, 121
Companies (Reconstruction) Act (New South Wales), 139

Companies Statute (1864), 14
Comptoir National d'Escompte de Paris, 2, 50
Copland, Prof. D. B., 156
Council of Finance, 175
Crises, causes of, 124–34
Currency, 24, 31, 59
Current Account Depositors Act (New South Wales), 138

DAVIS, PIERPONT V., of New York, 165
Davies Companies, 109
Darling, Mr. J., 158, 211–15
Definition of bank, 1, 144
Deposit rates, 72, 73, 96, 109
Deposits, 99, 111, 115, 118–19
distribution of, 74
in Australia, 75, 111, 117, 118–19
in Great Britain, 75, 111, 117, 118–19
Dibbs, Premier of New South Wales, 175
Dibbs, Sir Charles, 55
Discount, rates of, 97, 149
Dividends, 45, 46, 81, 82, 169, 170
policy in paying, 81, 170
Dominion Status, 233
Droop *v.* The Colonial Bank, 14
Drury, General Manager of the Queensland National Bank, 147

ECONOMIC imperialism, 230–5
Economic power, balance of, 230
Economic Society of Australia and New Zealand, 210
Economic unity of the British Empire, 230–5
Economist discusses Federal note issue, 188
Elder, Mr. G., 90
Elder, Sir J., 166
Empire Currency Bills, 213
Exchange, 154, 155–9, 191
New South Wales, 32–5
Queensland, 63, 64
South Australia, 37–9
Tasmania, 35–7
Victoria, 62
unfavourable, 151
Exports:—
all States, 104, 121
prices of, 120

FEDERAL BUILDING SOCIETY, 112
Federal Loan Council, 176
Fenton, Victorian statistician, 95, 99
Financial aspect of sovereignty, 91–2
Financial imperialism, 230
Financial unity of the British Empire, 230–5
methods of 231–3
Fink, Mr. Theo, 104
Finlayson, Mr., manager of the Union Bank, ignores Government Proclamation, 114
Fisher, Mr. Andrew, 188
Fixed Deposit Receipt, 102
Forrest, Sir J., 175
Franco-Prussian War, influence in Australia, 49
Funds in London, 124, 125
"Fungoid" Banks, 55, 56
Future of the British Empire, 231, 232
Fysh, Sir Phillip, Tasmanian Treasurer, 175

GAWLER, GOVERNOR, 89
Gibson, J. B., Senior General Manager, Standard Bank of South Africa, 209
Gibson, Sir Robert, Chairman of the Commonwealth Bank of Australia, 167, 194
Gold:—
discovery of, 48
discovery in Western Australia, 138
increase in production, 150
methods of handling, 67
Goodenough, Mr., Chairman of Barclay's Bank, on economic unity of the Empire, 231
Goschen, conversion scheme of, 49, 55, 101, 128
Government Account, 67, 68, 69
Group, the "gold," 50
Grice, Sir John, 163

HAMILTON, MR. EDWARD, on the 1893 crisis, 115, 123, 137
Harvey, Sir Ernest, on central banking, 209–11
Hayes *v.* London Chartered Bank, 14
Hayter, Victorian statistician, 95
Helms, Colonel, of New York, 165

IMPERIAL banking co-operation, 232–5
Imperial Economic Conference, 158
Imperial exchanges, 158, 212
Imports:—
all States, 104, 121
prices, 120
Victoria, 48

Institute of Bankers, 95, 171, 173–4, 184
Insurance of deposit receipts, 143
Interest on current account, 40–42, 71–3
Interest, rates of, 40
Investors' Review, 176

JAMAICA sovereigns, 27
Jevons, W. S., 61
Joint Stock Year Book, 82

KAPUNDA mines, 89
Knox, Mr. William, M.H.R., on the Council of Finance, 175

LAND ACTS, 12
Land Credits, Ltd., 162
Land speculation, 85
Lauderdale, J. F., of New York, 165
Leaf, Dr. Walter, 199
Lien on wool, Act giving, 12
Loan Council, Federal, 176
London Agreement, 71
Longmuir, Mr., on the note issue and the clearing house, 76

MACMILLAN, SIR WILLIAM, 184
Macquire, Governor, 21
McIlwraith, Sir Thomas, 70
Melbourne Banking Co., 52, 54
Melbourne Permanent Building Co., 113
Million Farms Scheme, 162

NASH, R. L., 74, 140, 178, 180, 184–5, 187
National City Bank of New York, 165
Norman, Mr. Montagu, on central banking, 201
Note issue as a prerogative of the Crown, 66
Notes:—
  1901 bankers' conference proposals, 246
  Commonwealth, 183, 188, 190
  New South Wales, 25
  Queensland, 63–4
  South Australia, 31
  Tasmania, 28
  Victoria, 61–2
  Western Australia, 32

O'BRIEN'S sheep-boiling-down process, 87
Oriental Banking Corporation, 40, 56, 58, 110
Overdraft policy, 131
Overend Gurney crisis, influence of, 92, 93

PAGE, DR. EARLE, on central banking, 192
Paish, Sir George, 181
Park, E. S., on the note issue as an aspect of the Royal Prerogative, 66, 183
Paterson, Premier of Victoria, 113
Peto, Brassey and Betts, influence of their failure, 93
Pinschoff, Consul for Austria-Hungary, on central banking, 183
Population, 84, 105
Premier Permanent Building Society, 108
Premiers' Conferences, 175
Prices, regulation of, 150
Private wealth, 179
" Property " crisis, 109
Protection, the effect of, 125
Public debt, 105, 172
Public Deposits Relief Act (Victoria), 139
Public Deposits Relief Act (Western Australia), 139

Quarterly Review, estimate of colonial indebtedness, 181
Queensland Government and the Bank of England, 69, 70
Queensland National Bank Agreement Bill, 147
Queensland National Bank Inquiry, 144, 146–8
Queensland Treasury Note issue, 188

RECONSTRUCTED BANKS, list of, 111
Reconstructed Companies' Act, (Victoria), 139
Reconstruction repayments, 140, 141
Reconstruction schemes, 134, 135–7
Reid, Mr., 66
Report on the Resumption of Gold Payments, South Africa, 208
Reserve Bank Bill, 196, 215–20
Reserve Bank co-operation, 235
Riddle, Governor of the Commonwealth Bank, 167, 195
Roman Catholic Interest, 51
Rothschild, Lord, 175
Royal Mint, branch of, 61
Royal Prerogative, invasion of, 90, 91
Rucker, F. A., 22

Rupee, Sicca, 28, 29
Rupees, value of, 24, 27

SCULLIN, MR., on the Commonwealth Bank, 196
Shaw, Dr. William, on central banking, 211
Sheldon, Sir Mark, 165
Silver, discovery of, 129
Smith, Martin Ridley, 16, 17, 170
Spanish dollar, 20, 24
Strong, Governor, New York, 199
States, public indebtedness, 95
Statist, 4, 17, 59, 144, 145, 163, 188
" Statistical Register " (New South Wales), 76
Strakosch, Sir Henry, 214
Structure, forms of banking, 41, 42, 63–4
Sutherland, Sir Thomas, 16, 109

TABLES, statistical, 9, 25, 28, 30, 31, 32, 33, 34, 36, 38, 43, 44, 45, 48, 61, 64, 72, 74, 75, 80, 81, 86, 88, 98, 99, 100, 101, 103, 104, 105, 106, 107, 110, 111, 112, 117, 118, 119, 120, 121, 135, 138, 148, 152, 153, 162, 173, 177–80
Telegraph transfers, 155
Theodore, E., on the Commonwealth Bank, 194
Time chart, 116
Times (London) on Australia's central bank, 193
Times (London), *Trade and Engineering Supplement*, 214
Tinline, Mr. George, 90
Torrens, Mr., 90
" Touting," 143
Treasury Bills, 33, 175
Treasury Note issue in Queensland, 187
Treasury Notes Act (Queensland), 139
Treasury Notes Advances Act (Queensland), 139
Turner, H. G., 13, 14, 22, 51, 96, 97

United Australia on centralised finance, 186–7
United States finance and Australia, 164–7

VICTORIA, Supreme Court of, 14
Victorian Building Society, 100
Victorian Commission on banking (1887), 1, 14, 64, (1895) 186

WAKEFIELD scheme, 88
Walker, J. T., Chairman of the Bank of New South Wales, on prevention of crises, 187
Walker, J. Y., on branch policy, 79
War loans, 150
  methods of financing, 150–1
Waterloo Company, 20, 21, 25
Wentworth, Premier of New South Wales, 87
Westgarth, William, on colonial indebtedness, 171
Wheat prices, 106
Whitworth, Sir A., 159
Wool:—
  prices, 106
  quantity, 106
  value, 106
Wylde, Judge Advocate, 21

YOKOHAMA SPECIE BANK, 2

BOOKS TO READ

THE EARLY HISTORY OF BANKING IN ENGLAND. By R. D. RICHARDS, Ph.D. Demy 8vo. 344 pp. Cloth, 15s.

Scotsman: "Dr. Richards has explored with great thoroughness the origins of banking in England, and he has made liberal use of documentary evidence hitherto unpublished. The result is a volume which, though it does not upset or revolutionise commonly accepted views on these matters, does fill in with great detail certain gaps in the history of the origins of banking. . . . The student of economic history and of the history of financial doctrine and theory will find Dr. Richards' volume of great interest."

ECONOMIC CONTROL : Australian Experiments in "Rationalisation and Safeguarding." By N. SKENE-SMITH, B.Com.
Demy 8vo. 330 pp. Map and 6 Illustrations. Cloth, 15s.

The object of this book is two-fold. Firstly, to state briefly the methods by which the economic machinery of a country can be controlled in accordance with the teachings of modern economic science. Secondly, to examine recent Australian developments in the light of this teaching.

THE IMPERIAL BANKS. By A. S. J. BASTER, B.Com., B.Sc. (Econ.). Demy 8vo. 288 pp. Cloth, 12s. 6d.

This book is intended to show something of the history and present position of the important and well-defined group of London banks operating mainly in the countries of the British Empire. It is particularly concerned with some problems raised by the present formation of great commercial "Empire Banks" in London. The investigation breaks entirely new ground, as no comprehensive general account of the work of the British Overseas Banks has yet been published in England.

THE WORLD'S POPULATION PROBLEMS AND A WHITE AUSTRALIA. By H. L. WILKINSON.
Demy 8vo. 350 pp., with many maps and illustrations. Cloth, 18s.

This book has been written with the object of bringing before the reader the various problems which have arisen, and will arise, as a result of population increasing at the present high rate which, if it continues, will add another 2,000 millions of people to the world's population before the end of another century. The possibilities of some countries absorbing the natural increases of their people are discussed with a view to localising the parts of the world where overcrowding must take place; and as all the difficulties in adjusting populations by migrations are practically exemplified in the case of Australia, with its vast underpopulated lands and immigration restriction laws, the latter part of the book is devoted to a discussion of the "White Australia" policy.

P. S. KING & SON, LTD.,
14 Great Smith Street, Westminster.

MSH 06110
FEB 14 1995
NEH
COLUMBIA UNIVERSITY LIBRARIES
0041427920

Date Due

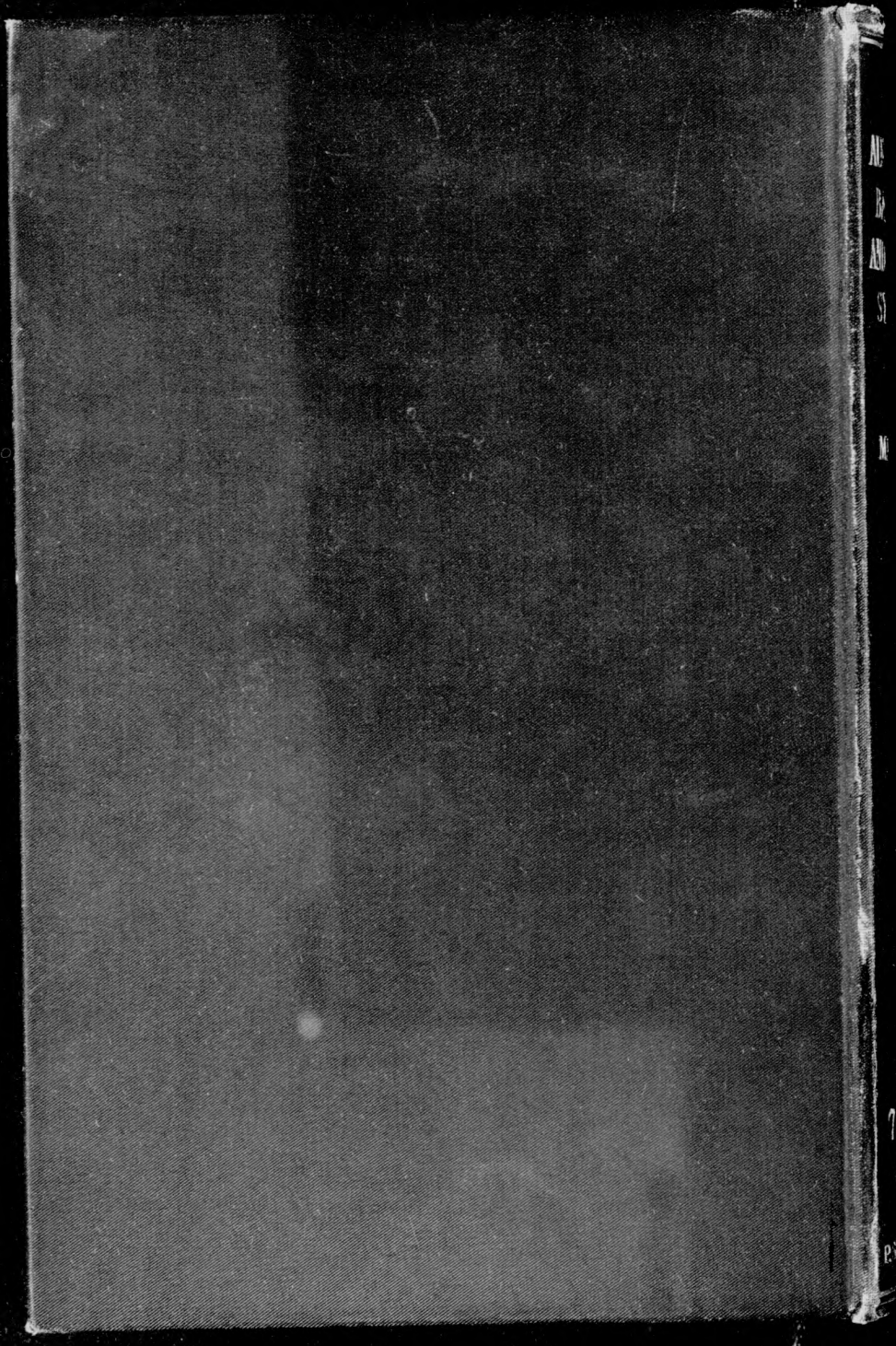
Feb 17			
~~Mar 29~~			
~~Mar 31~~			
~~Apr 7~~			
~~Apr 19~~			
Apr 27			
1-4 1949 4/28			
APR 25 1949 5/9			
MAY 9 1949 5/24			
Oct16'53			
Dec16'53			
Dec16'53			
DEC 19 '53			

SEP 15 1933

730.94 M19
Mackay
Australian banking.

S. Rozenberg Feb 7
920 Hudson St. Hoboken NJ
10 Feb 32W
SEP 15 1933 Sunday SEP 18 1933
MAR 22 1935 R. Smelz 537 W116
Mar 24 Jack Harg
MAR 24 1938 1500 Riverside Drive
~~MAR 31~~
apr 7
APR 20 1938 R U Sherman
Apr 27 1949 44 West 10 APR 28 1938
Arthur M. Berry
438 W. 116 apt 62
4/28

DEC 16 1931



END OF
TITLE